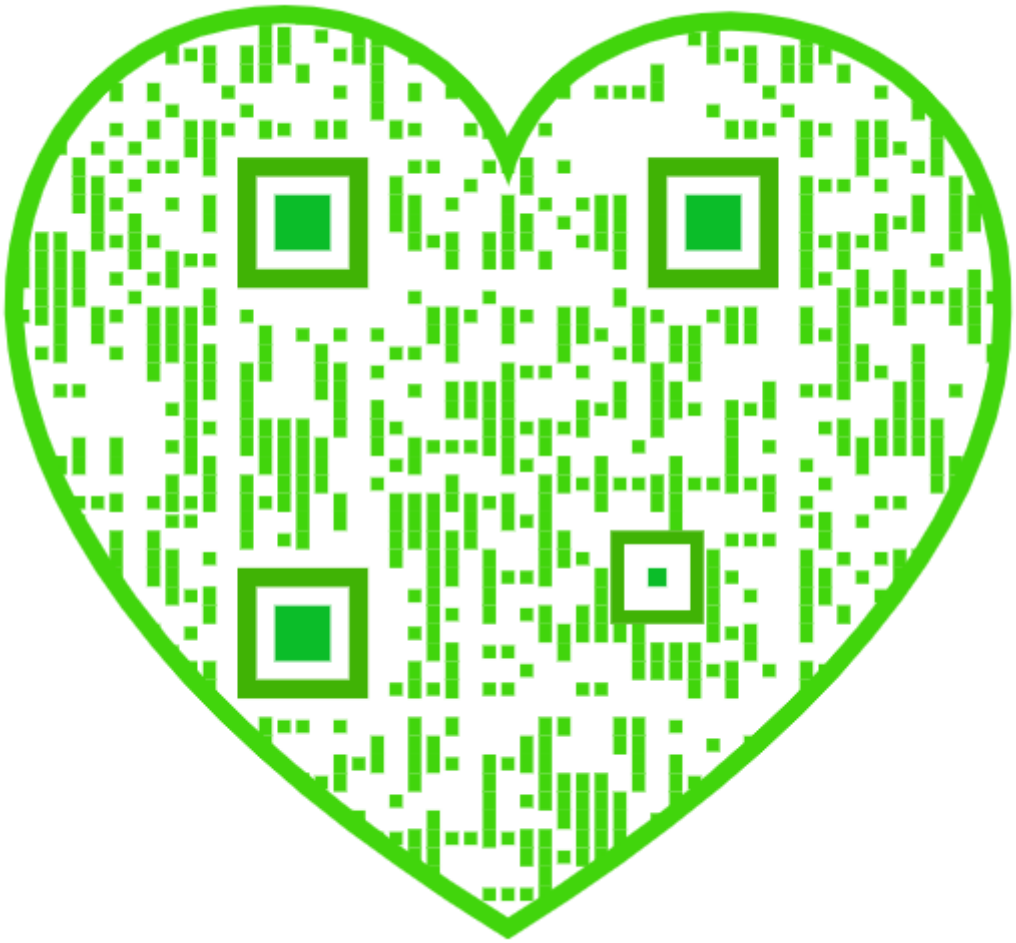

BANKING FOR BEGINNERS

By

J. F. EBERSOLE

With Acknowledgments to the University of Minnesota and Minneapolis Chapter of the American Institute of Banking

American Institute of Banking

Section American Bankers Association

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A successful banker is composed of about one-fifth accountant, two-fifths lawyer, three-fifths political economist, and four-fifths gentleman and scholar—total ten-fifths—double size. Any smaller person may be a pawnbroker or a promoter, but not a banker.—George E. Allen.

BANKING FOR BEGINNERS

CHAPTER I

Elementary Essentials

THE beginner in a bank usually discovers that he does not have at his command a sufficient knowledge of commercial documents and banking practice. Later on, also, he often realizes that he did not start out with the best principles of personal conduct or a proper attitude or view of his own job. It is the object of this book to help the beginner in acquiring these necessary things at the earliest possible moment. He may then become a very efficient helper within a short time. The managers of banks who are obliged to train beginners also find this to be a problem of some difficulty and considerable expense. It has been suggested that the training of the average beginner costs a bank a total of about two hundred dollars in the form of unearned wages at the start, valuable time consumed by the officers or men in the bank who supervise the instruction of beginners, losses through errors due to ignorance, and waste due to inefficient utilization of time and energy.

SPECIAL INSTRUCTION FOR BEGINNERS.—While the standard study course of the American Institute of Banking is recognized as

the essential basis of banking education, experience has demonstrated the fact that something of more elementary character is needed to meet the requirements of beginners in the banking business. Several of the leading Institute chapters have experimented with educational devices aimed to meet this need. Materials and methods thus developed, however, need to be assembled, brought down to date, and preserved in a form available for the benefit of all beginners. The experience of Minneapolis chapter appears to be particularly available at this time for this purpose. The valuable work done by O. Howard Wolfe in his book entitled "Elementary Banking" has been liberally utilized in the preparation of this book. Many of Mr. Wolfe's ideas, and even some of his language, inevitably have been incorporated in certain chapters of this work. When the younger bank men of Minneapolis decided to attempt a solution of the problem of breaking in the beginner, preliminary meetings were held and attended by several well known bank officers, who are members of the chapter, and a number of representative chapter men. The most promising of the young men in the banks were invited to these conferences and asked to describe their difficulties and suggest what could be done for other beginners. After considerable discussion it was decided that classroom work during the regular working hours would be the best method of accomplishing the desired end. A com-

mittee of practical bankers appointed for the purpose outlined matters to be taught, but the necessity of arranging such matters in teachable form, and the further necessity of placing the work in charge of a trained instructor, were quickly recognized. Valuable service was rendered in this connection by the staff of the General Extension Division of the University of Minnesota. Under the plan devised classes were held on four days of each week for two consecutive hours each day and continuing until late in the summer months. The work was resumed after the summer vacations were completed in the banks, and continued with satisfactory results. The materials used for class purposes have undergone considerable change since the opening day. The persons in charge have not hesitated to modify or rearrange and add to or subtract from the material whenever it seemed desirable to do so. This book represents an elaboration of the course of study thus developed, and is suitable for (1) junior classes in Institute chapters; (2) study classes in individual banking institutions; (3) personal study by individual students.

PRELIMINARY STUDY AND CYCLE COURSE. — It is important to direct attention to one development in the use of the materials in this book. Certain things which every employe should know from the very start are presented in the first two chapters, and should be prescribed to every student before he is permitted to attempt

what follows. Subsequent chapters of the book may be taken up in any order desirable, because they contain information that is not absolutely needed during the first days of the novice in the bank. When the course opens the first students are put through the preliminary chapters and then started upon the advanced chapters (Cycle Course). When a number of new students are enrolled the newcomers are put through the preliminary chapters at once, and then are put into the cycle course at whatever point may have been reached at that time. The newcomer remains until he has made a complete cycle of all the chapters in the advanced part.

MESSENGERS AND OTHER BANK MEN. —This book will refer to the beginner as a "messenger." All bank employes are not messengers, but the duties and responsibilities of the messenger are such that all bank men will do well to study the work of such beginners and to learn of their problems. The lack of one simple fact may influence an important decision. The elements of bank administration are therefore worth most careful study. It should be considered a great advantage to begin at the bottom in the banking business. It is only by beginning at the bottom that a man can become familiar with all the details of the business. And later, when he becomes a department head or officer, the man who has begun at the bottom will understand his duties better and

will know what to expect of other men. The messengership is a golden opportunity to learn of modern business by observing local business practices, documents and men. This is a privilege that may be enjoyed only in the duties of a messenger unless one later becomes a part of the credit department, which few men do.

THREE NEEDS OF THE BEGINNER.—There are three important things for the messenger to acquire in his first week. These are (1) a desire to make the business men of the city like his bank; (2) a desire to secure merited personal advancement in his own bank; (3) a certain amount of definite information concerning adding machines and the duties of messengers on routes.

HOW CAN A MESSENGER MAKE BUSINESS MEN LIKE HIS OWN BANK?—Messengers have an important influence on the ideas of business men concerning particular banks. Many people judge a bank by its messengers because they see the messengers often and may never actually come to the banks to see anyone else. While the officers do often meet the public in the making of loans and other business, yet the messengers are equally important from the standpoint of appearances, for they assist in collecting the obligations due to a bank. It is equally as important to make a good impression when collecting as when lending.

(1) The first essential in making a good impression is cleanliness. A clean collar, with regular

brushing of the clothes and shoes, is more important than the quality, style or expensiveness of one's attire. Customers consider smoking as questionable in a young man. The bad impression made upon a customer by smoking has been said to be a sufficient cause for losing an account. And the beginner in banking needs to be informed that the officers who smoke usually prefer the young man who does not smoke. As the personal representatives of the bank, therefore, messengers should consider their own personal appearance equally as important as the personal appearance of an officer.

(2) The second essential is courtesy and politeness. The essence of courtesy is to treat every individual with equal kindness and consideration. What may appear to a messenger to be a very insignificant transaction with a very insignificant individual may, as a matter of fact, influence a very large transaction for or against his own bank. It is not uncommon to find that a person of insignificant appearance is really a person of some consequence. So much of modern business is carried on over the telephone that the customers of a bank may very easily form their opinion of the bank from the way in which they are treated in a telephone conversation. The fact that the person with whom you are talking over the telephone cannot see your face makes it especially important that your words be selected carefully and that your general attitude be that of persuasive kindliness. No

one should attempt to telephone concerning important business matters without planning carefully in advance what is going to be said.

(3) A third essential is never to give out any information concerning the affairs of the bank. Business men do not like to have their affairs known in great detail by their competitors or by other business men. The customer's relation with his bank is one of great confidence, similar to his relationship with his doctor or his lawyer. The men who represent banks must therefore be always on their guard to avoid giving confidential information into the hands of persons who should not receive it. Never answer a question concerning another business man's affairs which have been handled through your bank. Do not boast, either upon the street or at your home, concerning any transaction which you may have handled. Consider yourself the confidential trustee of the bank's information. Nothing will drive away a customer so quickly as to find out that he can secure information concerning others, because he will then suspect that others can secure information concerning him.

HOW MAY BANK MESSENGERS SECURE PERSONAL ADVANCEMENT? — Employes who are working for banks are being watched every day to see if they are going to develop into men of character and capacity. Every day's task is made the basis for judging the individual. Every day is a judgment day. Managers of banks see

what takes place but seldom remark about it. The beginner in banking must not make the mistake of believing that his work is unimportant. It is well that a messenger be reminded of the fact that the banks in many large cities use old men for messengers, and that in country banks it is often the president or cashier who performs such work. The importance of the work must not be judged by the amount of the salary. The salary is small because the beginner knows so little about his work. As soon as he is prepared for advancement his salary is increased. The individual who deserves and secures advancement must meet many requirements, but the more important are (1) honesty, (2) team play, and (3) development of individual capacity.

HONESTY AS AN ASSET.—The most important quality that lies at the very foundation of all business, and more especially of the banking business, is honesty. If a man is not honest, first of all with himself and next with those with whom he comes in contact, it is quite impossible for him effectively to gain the confidence that is an absolute requisite in getting people to entrust the bank with their funds, which, next to life and character, are the most valuable possessions of the greater part of mankind. Honesty includes truthfulness, sincerity, and an absence of every pretension to appear what one is not. Bankers unhesitatingly agree that the policy of honesty is for them an

absolute necessity, whatever it may be in any other business; and the more robust the honesty, the stronger effect it is likely to have in producing confidence, which is the soul of the banking business. However honest we may be, however, we must not assume that everybody else is honest. One who is blind to the minutest signs of honesty or dishonesty can never be a successful credit man. No man ever began a career of theft by stealing a large sum of money. It is the business of the credit man who is judging business to give full weight to the small events which are forming the character and future of the individual. The young man who is seeking a successful career, either in business or in banking, should never permit a single exception to his determination to maintain the strictest standards of honesty and truthfulness.

TEAM PLAY.—Team play is very important in the banking business. Unless each member of the team does his duty the whole team cannot win the game. Failure on the part of one employe to do his duty in the bank may keep as many as three hundred men from performing their duty at the proper time. Every team has a captain who gives the orders which the members of the team obey. Intelligent obedience and willingness to take orders are important requirements for a good player of the game. Beginners in the banking business must look upon orders and instructions as commands from the team captain. Unless the bank employe

makes up his mind to do all in his power to make the team—his bank—a success, he is unfitted for advancement; and it will not take his superiors long to find it out. Not only is team play necessary, but the individual member of the team must develop his own strength as much as possible. Too much emphasis cannot be laid upon the importance of clean living. A man cannot advance rapidly unless he has good health, and the way to secure good health is to avoid late hours and to secure adequate exercise outside of banking hours. Physical health is the best foundation for mental development. In addition to health, the bank man must develop his knowledge through education. He should take every opportunity that is offered to him to study his occupation or to study the business world in which he lives. Knowledge is power. It should be remembered that self-education may go on both in school and outside of school. Much knowledge and discipline may be acquired in spare moments by reading, conversation, or even by thinking, but such ways and means cannot be successfully substituted for orthodox methods of instruction.

SYSTEM IN EDUCATION.—Self-education without guidance is an interesting thing to read about in the biographies of Benjamin Franklin and Abraham Lincoln, but average persons are not equal to it. As Ben Jonson put it, "Very few men are wise of their own counsel, or learned by their own teaching, for he that is only taught by

himself has a fool for a master." What most students need is a teacher to direct and encourage them. Few get much benefit from text-books or lectures without collateral examinations. Reading at random is a delusion and a snare. Lecture schemes that purport to give instruction to students without requiring work by students themselves are educational counterfeits. Text literature and lectures are educational food. Examinations are the process of digestion. The mind as well as the body requires exercise, and the student who ducks or dodges examination is like the dyspeptic who bolts his food or the athlete who sidesteps his training. The fact should be appreciated that examination is something more than measurement and certification. Students who realize that they are to be examined pay closer attention to their lessons. The process of examination also corrects omissions and misconceptions otherwise inevitable in any system of study. Examination is a fundamental necessity in practical education and not a scholastic superfluity as some persons suppose. "Learning by study must be won; 'twas ne'er entailed from sire to son."

DEVELOPMENT OF INDIVIDUAL CAPACITY.—Every bank man should make a thorough study of his own department. He should endeavor to find ways for improving the work that is being done within his own department. Those who can suggest improvements will always receive

favorable mention when advancements are being considered. But it must be remembered that these suggestions are welcomed only when given to the proper person, at the proper time, and in the proper way. The work of no department will run smoothly or efficiently unless the workers are punctual and accurate. Punctuality is demanded because the work of many may depend upon the work of one or two. Accuracy is demanded in order to avoid unnecessary labor for others who are compelled to balance with you. Particularly in the handling of all documents and in the writing of all letters and numerals, accuracy is important. In the writing of numerals good penmanship is a prerequisite. In developing one's individual character and ability, the saving of some part of the wages on each pay day is important. Unless you can save a little you will not be in a position to take advantage of opportunities that are offered you later in life which require capital. The man who can not discipline himself by compelling himself to save a little is hardly fitted to discipline other men in other matters. Also, a habit of regular saving will help a bank man out of difficulties, such as borrowing, and will also keep him free from worry, which is known to be a source of personal inefficiency. Above all else, it is necessary for the ambitious bank man to assume responsibility. This means to take his task seriously and to devote to it his full energy and attention. Men cannot advance with-

out assuming responsibility. What this means may be made clear in several ways. First, the man who assumes responsibility prepares himself for the job just above his present job, after he has mastered his present job. Then, when illness or vacancy occurs, the work of the bank can go forward and he can be advanced. Second, the man who assumes responsibility never relies on some superior officer to see that a thing is correct. He finds the error himself, or assures himself that everything is correct and in order. When you are asked to check some figures, or to prove some figures, assume responsibility and locate the difficulty. Proving is not performed for the purpose of providing clerks with work, but to check up a difference between the bank departments or to correct some customer's error. Third, learn the art of concentration. This means to become so interested in the task at hand and so determined to see it done correctly that all else is for the time forgotten.

FUNCTIONS AND INSTRUMENTS. — The principal functions of banking are (1) to receive deposits, (2) to make loans, (3) to transfer money and credit, (4) to issue currency. The principal instruments of banking are (1) money and currency, (2) checks, (3) bills of exchange, (4) promissory notes. A "check" may be defined as a written order on a bank or banker for the payment of money. A "bill of exchange" or "draft" may be defined as an order drawn by one party, called the

"drawer," on another party, called the "drawee," for the payment of money to a third party, called the "payee," the amount to be charged to the drawer. A bill of exchange may be drawn payable at sight or at some specified time subsequent to sight or demand. Unless the drawee wishes to pay a time draft or bill when presented, he writes across the face of the paper the word "Accepted," with his signature and the date. This means that the drawee assents to the terms of the bill or draft and binds himself to honor it at maturity. It then becomes known as an "acceptance." A "promissory" note is a promise made in writing by one party, called the "maker," to pay a sum of money to another party, called the "payee," or to his order.

BANK ORGANIZATION. — Banking laws in the United States, both National and State, have become crystallized into concrete form, and in the organization of any banking corporation certain legal requirements are prescribed by governmental authorities. Under the National Bank Act there is practically but one form of charter. The laws of the different States, however, provide for State banks of deposit and discount, loan and trust companies and savings banks. In a restricted sense, building and loan associations also do a banking business, and may be incorporated under State law. Trust companies are organized primarily for the purpose of holding and administering trusts of various kinds. In this capacity trust companies

may act as administrators of estates, executors of wills, guardians of minors or incompetent persons, and, in short, assume all such responsibilities delegated to individual trustees. Trust companies may also act as registrars and transfer agents. Most trust companies have added to this a general commercial banking business. Commercial banks under State authority differ but little from National banks in the general methods and scope of their business.

BANK ADMINISTRATION. — Banks are governed by Boards of Directors elected by the stockholders. Bank officers are chosen by the Directors and are charged with the duties and responsibilities of active administration. The size of the bank, its location and the amount of business done determine the number of officers, although in every bank there are at least two, namely, a president and a cashier. In larger banks there are also a vice-president and, sometimes, an assistant cashier. In the great city banks there are frequently two or more vice-presidents and assistant cashiers. In the administration of the affairs of any bank the duties and responsibilities of every officer and employe should be well defined. Responsibility is commensurate with authority, and officers and employes should be held to strict accountability for the satisfactory performance of their own specific duties—no more, no less. Those who do more than their duty are in a class by themselves. Ambition

BANK ORGANIZATION CHART

STOCKHOLDERS who own the bank

elect

DIRECTORS who direct the policy of the bank

appoint

- Discount Committee
- Executive Committee
- Examination Committee

OFFICERS who manage the bank

employ

- President
- Vice-President
- Cashier (or Treasurer or Secretary)
- Assistant Cashiers

CLERKS who do the detail work, classified opposite

EXECUTIVE DIVISIONS OF WORK

- Loan and Discount Department
- Credit Department
- Auditor
- Analysis Department
- New Business Department
- Trust Department

TELLER DIVISIONS OF WORK

- Paying Teller
- Receiving Teller
- Note Teller
- Collection Teller
- Exchange or Draft Teller

BOOKKEEPING DIVISIONS OF WORK

- General Ledger
- Individual Ledgers
- Savings Accounts
- Country Bank Accounts
- Statement Clerks

to do better and greater things, however, must not lead to the mistake of neglecting routine work. Banking is a business of infinite detail, and accuracy and promptness in minor matters are essential to any complete and logical system of administration. A successful banker, however, is composed of about one-fifth accountant, two-fifths lawyer, three-fifths political economist, and four-fifths gentleman and scholar—total ten-fifths—double size. Any smaller person may be a pawnbroker or a promoter, but not a banker.

ROUTINE WORK.—The banker who begins at the bottom—and that is where every banker should begin, whether his social position is at the beginning or the end of an ancestral line—should systematize routine work into habit, thereby simplifying physical movements, diminishing fatigue and assuring speed and accuracy. Uniform and continued practice will create well beaten channels of thought, so that a minimum of mental suggestion will cause the automatic performance of a mountain of detail, with the nervous system as an ally and not an enemy. The only danger in thus maximizing the physical and minimizing the mental is that intellectuality may sometimes become obscure. The beginner in banking should master routine, but should not let routine master him. In accordance with such conception of routine work, every bank man, no matter what his position, will find it convenient occasionally to use the add-

ing machine. The messengers in preparing their own runs, and in helping with the morning work in the mail or transit departments, find it indispensable to run an adding machine with rapidity and accuracy. In order to secure this rapidity with accuracy, beginners should learn the right method of running such machines from the very start of their training. Even if the right method is not the quickest at the start, remember that it is ultimate results that are important in this training.

HOW TO OPERATE THE ADDING MACHINE.—After careful observation of the methods used by the majority of the highest speed men in the contests in Minneapolis and St. Paul, the following essential steps or rules were formulated:

(1) Stand the checks on edge and shake them down so that they may be easily turned over by the thumb of the left hand catching the check on the edge. This is made easier by leaning the bundle away from the operator when shaking them down, so that the top checks come forward.

(2) Read the amount of the check in such a way as to enable you to plan the striking of the keys with one movement, beginning at the bottom of the keyboard and moving upward. This method of reading checks will be more quickly learned by making it a practice to strike the lowest numbers first, no matter how they may be arranged in the amount. It should never be necessary to come down the keyboard.

(3) Do not fail to use from the start at least two fingers in striking the keys.

(4) When the upward movement is complete it will be found very easy to pull the lever forward and release it (or to strike the recording key in electric machines) and at the same moment turn over your recorded check.

(5) Turn the check over completely by taking hold at the left end of the check, and you will find it easy to notice, either by the endorsements or the color of the check, that you have turned over only a single check. Occasionally a general glance in this manner at the back of checks will reveal some defects of endorsement, but the beginner will hardly acquire this ability to "sense" an error until he has had considerable practice. After the student has acquired considerable proficiency he may easily adopt the method of using the thumb and finger to turn up the right end of the checks for reading, while holding the recorded checks between the fingers, until the bundle becomes unmanageable. At this point the whole bundle may be turned over as though it were a single check. This is the quickest way, but it does not suit the beginner, nor give the experienced hand an opportunity to pick out irregular items.

SPECIAL INSTRUCTIONS FOR MESSENGERS AND COLLECTORS. — (1) The head messenger will make a daily schedule for reporting each morning for work, lunch hour, etc. When the

messengers are not out on trips they will be assigned to other work. Messengers must report immediately to the head messenger upon return from routes. If unable to report for work, telephone the chief clerk not later than 9 A. M. If late, notify the head messenger upon arrival, so that your name will not be reported as being absent.

(2) Messengers generally leave on the first route at 10 A. M. each morning; the second route leaves at 11 A. M., and the third route leaves at 1:15 P. M. each day excepting Saturday, when it leaves at 11:45 A. M. Such routes and times may of course vary in different cities. Those who are employed on the "Early Morning Mail" must be sure that everything carried by them on their routes has been turned in before leaving at night, and must check up with the head messenger. Be sure that your wallet is supplied at all times with "Notices," "Dishonored Check Receipts," "Cash Envelopes" and "Collection Paid Stamp." It is very important that you keep the date correct on your collection paid stamp. If the documents which you have stamped should be needed as proof in court, the exact date will be very necessary. The wallet should always be carried, even if it is only for one item. Keep your hand on the wallet and then no one will be able to take it away from you without your knowing it.

(3) Before starting on your trip, be sure that you have located with accuracy all of the parties

for whom you have documents. When you have a large number for one building, ride up in the elevator and distribute the documents from office to office as you run down from the top floor to the bottom. Take the elevator up again and follow down your documents. It will be observed that this gives each customer an equal amount of time for the inspection of the documents and also enables you to complete the building with the least delay.

(4) On entering an office for the purpose of making presentation of collections, etc., always bear in mind that you are a representative of your bank, and that your institution is constantly endeavoring to obtain new customers, and at the same time please all with whom the bank does business.

(5) Present all paper promptly. Drafts for acceptance or payment should always be presented to the drawee in person, and the collector should make every effort to find him. In case the drawee is absent a presentation of the draft at his place of business and the leaving of a notice is sufficient, but whenever possible see the drawee in person.

(6) Present all firm or corporation documents at the cashier's office of the concern, and be careful to distinguish between documents which are obligations of the firm and others that are personal obligations of its officers or employes. Such personal documents should not come to the knowledge

of the firm except when the individual gives an order accordingly.

(7) If the draft or note, or whatever the document may be, is refused payment or acceptance, the collector should try to get the interested party to write his reason on the back of the document itself and never on any papers which are attached to it. In the event of his refusing to do so the collector should himself make the notation. For instance: "Amount Incorrect," "Will Mail Check," "Drawee Will Take Up the Matter Direct With the Drawer." When he says "Will Write," always ask "To Whom?" No document should be returned to the collection teller without some notation of reasons. In the case of handling returned checks, notations should be made on the back of the "Return Slip" which is attached to the face of the check. These rules are of importance and should be followed for perfect work.

(8) In the case of non-payment or non-acceptance, leave plain and legible "Notices." Be sure and leave notices in all cases, unless paper is paid. Remember that the "Notice" is left to safeguard your bank from a lawsuit for not having presented the paper. The notice is proof of presentation. If entrance to office or residence of drawee is locked, the notice may be left in the drawee's mail box or under the door.

(9) When a time draft is presented for acceptance, be sure that the party who accepts the same

has the proper authority to do so. Acceptance should be signed as follows: When drawn on a partnership, by one of the partners; if a corporation, by some official, who must show his title after his name when signing for the corporation.

(10) Always remember to either get payment or bring back the item itself. Never leave an unpaid draft or note without first calling up the city collection department, draft teller or head messenger. Messengers frequently have to present the same draft to certain firms several times. They should never intimate to such firms that they are tired of bringing the same collection over and over again without results. The teller should, however, not allow collections to drag along too long, and after an item has been presented a certain number of times it is well to attach a notation saying that if such item is not paid "We Will Be Obliged to Return It to the Source from Which We Received It." When you have for collection two or more drafts drawn on one party who pays by one check, the amounts of the drafts that are paid must be listed on the back of the check. This facilitates tracing and checking up.

(11) Drafts are frequently paid by persons other than those on whom the same are drawn, but great care should be exercised in such cases in order to avoid liability for loss occurring to the rightful owner of goods released as collateral. Be sure to write on the back of the check the name

of the party on whom the draft was drawn. When you are presenting a draft for payment, never allow anybody to take up and keep a bill of lading or other papers unless they pay the draft. When documents are attached to drafts presented for payment, observe closely the number of bills of lading and other documents, and be sure that the same number and kinds are returned to you if the draft is not paid. Do not permit a change to be made in the wording or meaning of any paper.

(12) Messengers should know which items are handled as cash and which are ordinary collections. Cash items must be paid on demand, and cannot be held over. Customers frequently say "Hold for a few days," when, if they understood that instructions were not to hold, they would pay at sight, thus saving the time and trouble of telephoning and of making a second trip. A messenger should never try to answer questions regarding matters with which he is not familiar. Any time such questions may be asked, promptly call the collection teller by telephone and see that the customer is thoroughly informed before taking the collection back to the bank.

(13) When you receive currency in payment of items, be sure that you have the correct amount. When receiving cash, place the same in your "Cash Envelope" in the presence of the party giving the same to you, so that in case you should receive counterfeit or mutilated money you can prove that

you received it from them. Seal the envelope and place the name of the payer, the date and your name on the outside. Always "Line up" checks and currency that you have received, so that they are ready for quick reading or counting by those who receive them from you at the bank.

(14) Make it a rule to look over what is received from customers after presentation with the greatest care in order to avoid errors or trouble for other men in your bank who must handle the documents you have received. Be sure the checks received are signed. This is a simple illustration of this point. In fact, the messengers should be so well versed in the proper form and filling in of documents that they will observe at a glance when some defect needs correcting. Make it a rule to scan every document you handle and develop a capacity to detect such errors as absence of date or absence of signature.

(15) Never accept "Part Payments." When receiving a check be careful to note the following: (1) Check must be drawn on a local bank. Never accept a check drawn on any bank outside of your own city until you have called up and secured such permission from an officer. (2) Check must be payable to your own bank. (3) The amount should be correct. (4) Check should be properly signed. (5) The amount in figures must agree with the written amount. Never accept a draft which is drawn on anyone else as payment for an item.

(16) If the party who usually signs the checks is not in, see that the draft is "OK'ed" by some responsible person who agrees to see that the draft is paid on the following presentation. Complaints are continually being made by large firms and business men that documents are presented between 12 and 1 o'clock, or while the person in charge of the office is at lunch; and, although the bank collector cannot please everybody in this respect, still, by changing his route a little, he can invariably arrange matters so as to be at the office when the cashier is in and not receive the same answer each day that the Cashier is at lunch. This may appear to be a small matter, but in reality it is of very great importance, and may be a way for making the relations of these firms and your bank more agreeable. If you have any special instructions, always explain what your instructions are, and say that you cannot do anything different without permission from the person who gave you your instructions.

(17) The messenger should be especially careful in the handling of papers and documents so that he will not lose them. The loss of a document may lay the bank open to a lawsuit and cause it to suffer a considerable loss. For example, the loss of a payment upon a real estate option, or a failure to deliver a bill of lading for perishable goods, would give a customer just cause for complaint. The representative of a bank should cultivate the

habit of making a mental note of all documents handed out and received in order to detect detachments that customers may have attempted to make.

(18) In handling checks returned for endorsement, always see that each check is endorsed exactly in the form in which the name of the payee appears on the check. If the payee is a partnership, the endorsement must be made by one of the partners and show the partnership name. If the payee is a corporation, the endorsement must show the name of an official of the corporation, together with his title.

(19) "Dishonored Check Receipts" may be used only in the following cases:

(a) Where the check has not been endorsed.
(b) Where the check is not properly endorsed.
(c) Where the check is not countersigned.
(d) Where the check is not signed.
(e) Where the amount is to be guaranteed.
(f) When an alteration is to be guaranteed.

The messenger who is interested in the growth of his own bank will notice all new firms which are just starting in business, or old firms which are moving to a new location, and will report such facts to the head messenger. Credit will be given for any new accounts that may be brought to the bank in this way.

(20) Messengers should understand that their time belongs to the bank from the time when they

arrive in the morning until they leave at night. Spare moments should be used for improving knowledge and training with the equipment of the bank. Messengers should not do personal errands for anyone except during the noon hour or outside of banking hours. If it is necessary for a messenger to have a short leave of absence, such, for instance, as to go to a dentist, leave may be secured by making request to the department head or to an officer.

(21) Take nothing for granted. Investigate anything that you do not thoroughly understand.

CHAPTER II

Elements of Contracts

DEFINITION OF CONTRACT.—A contract is an agreement containing a promise that is enforceable in law. "Agreement" shows that there must be at least two parties, one of whom has made an offer which the other has accepted. It must contain a promise to do something. It must be a promise that can be enforced in a court of law—that is, if one party refused to do what he had promised the other can go into court and compel him to do so or get damages. Not all agreements containing promises are enforceable in law—that is why we say that this enforceability is necessary to make a contract. For instance, agreements made jokingly, and social agreements, cannot be enforced in court. The motives which caused the parties to make the agreement have nothing to do with its enforceability. Contracts may result from words or acts.

IMPORTANCE OF STUDY OF CONTRACTS.—Practically every commercial transaction we can engage in rests on an agreement between parties. Arrangements for credit; promises to do future acts; endorsements on bills and notes; agreements to pay another's debt; a bank's promise to pay checks drawn on a checking account; insurance policies—all of these are examples

of agreements which are contracts. It can be seen that a knowledge of the principles of the law of contracts is extremely important to the banker, for he is continually concerned with the business affairs of other people, and should also know just what duties and rights a bank is giving and receiving in any transaction that it enters.

CONTRACT TO PERFORM WORK.

This Agreement made this fourth day of April, 1915, between John Rogers of Mattoon, Illinois, and George Smith of the same place, witnesseth: That the said John Rogers agrees to work for the said George Smith as a laborer in the latter's lumber yard near the city of Mattoon, during a period of six months, beginning April 15, 1915, and ending October 14, 1915.

In consideration of the services so performed, the said George Smith agrees to pay to the said John Rogers the sum of Fifty Dollars per month, to be paid at the end of each month of said term.

In witness whereof, we have hereunto set our hands and seals the day and year first above written.

Witnesses:

C. E. Keagy
A. Q. Fulton

John Rogers { L. S. }

George Smith { L. S. }

EXPRESS VERSUS IMPLIED CONTRACTS. — It will be advisable to know a few common classifications of contracts. Contracts are either "express" or "implied." Where there is an actual promise, either in writing or words, the contract is express. When the obligation is determined by considering the conduct of the parties, it is a promise implied in fact. For instance, if Jones, with the knowledge of Smith, who says nothing, paints Smith's fence, a promise to pay the reasonable value of the work performed is implied. Likewise, a promise to pay is implied where a person, though he is not a subscriber, takes a newspaper from the post office through which it is regularly sent to him. In these cases there is a promise implied in fact—from the conduct of the parties. There is no obligation if the services are performed gratuitously and if the person receiving the benefit has not been in a situation where he was free to choose whether he would accept the work. He must also have done something (which may be saying nothing) from which one could fairly infer that he had intended to pay. The law will impose an obligation where one person has benefited at the expense of another and circumstances exist under which it is just that the other man should be repaid.

FORMAL VERSUS INFORMAL CONTRACTS.—Another division is into "formal" and "informal" contracts. Formal contracts are those under seal or record—that is, acknowledgments

of debt entered on the records of a court, and contracts in writing and under seal (all contracts under seal are written).

SPECIMEN OF SEALED CONTRACT

$5,000 Buffalo, N. Y., May 15, 1917.

Sixty days after date I promise to pay to John Roberts Five Thousand Dollars.

In witness and confirmation whereof, I have hereunto set my hand and seal.

(Signed) JAMES ROGERS (Seal)

SIMPLE CONTRACT OR PROMISE TO PAY MONEY

July 2, 1917.

Thirty days after date I promise to pay John Smith two hundred dollars, for value received.

(Signed) RALPH RICHARDS.

Informal or simple contracts are also known as "parol contracts" and include all contracts not under seal or of record. They may be in writing or oral (it is a common mistake when "parol contracts" are mentioned to believe that oral contracts only are meant). The chief difficulty of oral contracts arises when it is endeavored to prove their

FORM OF WRITTEN CONTRACT

THIS AGREEMENT, made in triplicate, this fifteenth day of June, one thousand nine hundred sixteen, by and between James Harrod, of Louisville, Kentucky, of the first part, and Rex Beisel, of Cincinnati, Ohio, of the second part, WITNESSETH, as follows:

First, that the said party of the first part, for and in consideration of the agreements herein stated, to be performed by the party of the second part, agrees to construct and finish in good and workmanlike manner for the party of the second part, on a lot belonging to him, known as 1109 Perry Avenue, in Cincinnati, Ohio, one wooden garage, in accordance with the plans made by Tyler Woodruff, architect, of Cincinnati, Ohio, said plans being attached to this agreement. Said garage is to be constructed of materials to be passed on by the said Tyler Woodruff before they are used. Said garage is to be ready for occupancy by the first day of August, one thousand nine hundred sixteen.

Second, that the party of the first part further agrees that in case he shall fail to have the garage ready for use by the date above specified he will pay to the party of the second part ten dollars as liquidated damages, for such delay, for every day that the completion of this contract is delayed.

Third, that the party of the second part, in consideration thereof, agrees to pay to the said party of the first part for the same the sum of one thousand dollars, in lawful money of the United States, when the said garage is ready for occupancy. The party of the second part further agrees to pay all charges for services made by the aforementioned Tyler Woodruff in connection with the said garage.

IN WITNESS WHEREOF, The parties to these presents have hereunto set their hands the day and year first above written.

(Signed) JAMES HARROD,
REX BEISEL.

Witnessed by:
IRA HALL,
STEPHEN CODY.

388369

existence. We do not have space here to give the rules by which the terms and existence of oral contracts must be proved. As a result of the difficulty of proving their terms and existence, what is known as the Statute of Frauds was passed in England in 1676, and has been adopted generally in the United States. It provides that certain contracts must be in writing, or properly evidenced in some other way, to make them valid. In most cases, however, an oral contract is just as good as one in writing. Contracts do not have to be sealed or witnessed. The wording of written contracts may be very simple, but should state fully the intention of the parties. Even where contracts are required to be in writing, this writing may be a brief note or memorandum.

SIMPLER FORM OF WRITTEN CONTRACT

A and B do hereby mutually agree as follows: A to (state what A promises); B to (state what B promises).

Boston, Mass., Dec. 5, 1907. A.

B.

VOID VERSUS VOIDABLE CONTRACTS. —There is an important distinction between "void" and "voidable" contracts. Confusion sometimes arises from the failure to understand the difference. A contract is void when the law declares it to be

so absolutely—there is no contract whatever and no change in the legal position of the parties; it cannot be ratified. A voidable contract, on the other hand, binds one party but not the other; it is valid until it is avoided by the party entitled to avoid it (refuse to do his part). Until thus disaffirmed it is binding. It may be ratified. Thus, A agrees to sell a $5,000 automobile to B, a minor (not yet 21 years of age). A is bound to furnish the automobile and cannot plead that B was not of age; B may refuse to take the automobile, in which case A is helpless; B may ratify after becoming of age—that is, agree to fulfill his part of the contract he had entered into when a minor. As we shall see later, a minor is bound to pay for necessaries, but even then only a reasonable price. For instance, B, a minor, agrees to purchase a $30 suit from A, who furnishes the suit. B then tries to avoid paying for it, alleging that he was not able to enter into a contract. He will be compelled to pay for it, but only what the suit is worth—regardless of the fact that he had agreed to pay $30.

ESSENTIALS OF CONTRACTS.—We shall next consider the various elements necessary to render a contract enforceable in court, either by the compelling of specific performance or the payment of damages for non-performance. There must be a legal object of the agreement, competent parties, offer and acceptance between the parties, reality of consent, and consideration.

LEGAL OBJECT.—When an agreement has an illegal object it is not a contract and is not enforceable at law. A contract must have a lawful purpose. Clearly, if a man should bind himself to another to kill a third party he could not be compelled to perform his agreement. Illegal agreements may be in violation of statutes or against public policy. An agreement directly opposed to the constitution or the statutes of the United States, or of the State to which the parties are subject, or infringing a Federal treaty, will not be enforced by the courts. There are any number of laws which may invalidate agreements made in disobedience to them, but we will have space here to mention only a few of the more important. Most States by law forbid the transaction of business on Sunday. But the courts will usually enforce a business agreement which has been entered into on a Sunday if it has been ratified on a week day. The law would not, however, affect contracts entered into on Sunday whose object was to aid a church or other charity. Contracts for gambling or wagering are usually forbidden. Wagers on the rise or fall of prices (stock market transactions) are illegal only where there is no intent to deliver or receive the article itself. At one time insurance was a favorite wagering contract. Insurance contracts are now permitted by law, provided that the person taking out the insurance has some insurable interest in the life or property which the policy

covers. Contracts for usury are illegal. In most States the statutes limit the rate of interest which may be charged for the use of money. Of course the amount of interest may be fixed below the rate established by law. The penalty for those who stipulate for a higher rate of interest than the maximum varies greatly, while a few States have no penalty at all. Agreements against public policy are those deemed injurious to the public welfare. They may be against the Government itself or some established interest of society. Public health and morals must be protected and agreements to do something which will interfere with them are unenforceable. Agreements to influence legislation; interfering with the marriage relation; suppressing bidding, either on contracts or at a public sale; obstructing justice; aiding a public enemy; inducing the commission of crime—are contrary to public policy and void. In many cases, indeed, the agreement is not only void but there is a penalty for entering into it.

EFFECT OF ILLEGALITY. — Where one provision in a contract is void for illegality (and is not the contract's main or essential feature) but can be clearly separated from the other parts relied on, such other parts are not affected by the invalid part, and they may be enforced just as if the invalid provision had never been in the contract. For instance, Allen sells his business to Harrowby for $50,000, and in consideration of $10,000 more agrees

not to engage in a similar business again anywhere in the State. The second agreement is illegal, because an unnecessary restraint of trade, but as it rests on a separate consideration and can be separated from the legal part, the latter may be enforced (the agreement to sell the business). But if for $50,000 Allen had agreed to sell his business and not to engage in business in the State, then the whole agreement falls, for it would be impossible to say how much of the $50,000 was for the sale of the business and how much for the agreement not to engage in the business again. The rule is that if any part of an indivisible contract (where we cannot find a separate consideration for the illegal part) is void for illegality or reasons of public policy, then neither of the parties can enforce any of its provisions against the other. If the parties are not in pari delicto (equal guilt) the courts may aid the party who, compared with the other, is innocent of an illegal intent, to recover any money he may have paid. When equity and justice require it, the court will afford relief to the more innocent party even after the contract has been performed. For instance, a marriage broker induces an ignorant foreigner to pay him money to secure a wife for the latter. The court will permit the foreigner to recover the money, holding that the parties are not in equal guilt, since the foreigner is ignorant and has been induced by the broker's superior ability to part with his money.

COMPETENT PARTIES. — Not only must there be a legal object to a contract, but there must be competent parties. Competent persons are those who have the power and capacity to enter into the formation of valid contracts. Corporations may make contracts in furtherance of the purposes for which they are organized. This power does not need to be expressly granted. Contracts not within the scope of the purposes for which the corporation is organized are said to be "ultra vires." There is considerable difference of opinion over the question of how far such contracts will be enforced, when they have been partly performed. Aliens may generally contract the same as citizens; contracts with alien enemies are, as a rule, absolutely void. As regards other persons there are generally two restrictions, (1) persons lacking mental capacity; (2) persons lacking legal capacity, though they may have mental capacity. Persons lacking mental capacity are lunatics, idiots and drunkards. Contracts with such persons, except for necessaries furnished in good faith and under justifiable circumstances, are either voidable or void. To be able to escape a contract made while under the influence of liquor a person must have been so much intoxicated as to have been unable to understand and appreciate the nature of his acts. Insane persons and idiots, if they recover their reason, may ratify contracts made while in their former condition. Persons

lacking legal capacity to contract are infants and, in some jurisdictions, married women. Infants are persons under twenty-one years of age. In many States women become of age when eighteen, and in some prior to that time if married. Contracts made during infancy are voidable and not void—that is, they may be evaded by the infant but not by the other person, who is not allowed to plead the infancy of the former as a reason for not fulfilling his part of the agreement. They may be avoided by the infant even after he becomes of age. Infants, however, are liable for necessaries furnished them—but only for their fair value. Necessaries include not only the bare necessities of life but those things necessary to the infant to maintain his station in life. To recover against an infant the plaintiff must show (1) that the articles were in fact necessaries; (2) that the infant was not already supplied with them; (3) their reasonable market value. When an infant repudiates a contract he must repudiate the whole contract; he cannot accept one part and escape the rest. Infants are liable upon contracts that they ratify. Ratification occurs when, after becoming of age, the infant either promises to perform what he has agreed to do, or does some act from which such promise can be implied. Under the old common law married women could not contract at all; all contracts made by them were absolutely void. Modern legislation, however, has greatly enlarged

everywhere their power and capacity to contract. In general a married woman may now contract as fully as a single woman, and may sue and be sued apart from her husband.

OFFER AND ACCEPTANCE.—"Offer" and "acceptance" are necessary to create a binding obligation between parties. An "offer" is a proposition to enter into a contract; an "acceptance" is a proper manifestation by the party to whom the offer is made of his assent to it. Both the offer and its acceptance are necessary. In many cases it is necessary to analyze carefully the negotiations between the parties to discover whether there have been an offer and an acceptance, especially when the negotiations have continued over some time and there has been a variety of terms proposed. The reason is that it would be unfair to bind one party to a transaction unless the other party had had the same thing in mind. It is necessary that the minds of the parties shall meet and that they shall agree upon all material parts of the alleged agreement. Yet if the party who made the offer (the "offeror") had made his offer in definite terms and had taken reasonable steps to inform the other party (the "offeree") of them, then the law presumes that the second party in accepting the offer accepted on those terms, and a "Meeting of the minds" is presumed to have occurred. There must be serious intention to enter into an agreement. A jesting agreement is not binding, even though

the parties go through the form of making a contract, if they had not intended it to stand. It is dangerous, however, to make offers or acceptances in jest, for if the joke was so well carried out that it was likely to deceive, one of the parties may enforce it in court if he alleges that he took it seriously.

OFFER.—The offer must have been communicated to the offeree, the manner of communication being immaterial, because it is impossible for a person to assent to something of which he did not know. In a New York case A offered a reward of $200 to any person giving information leading to the arrest and conviction of a certain murderer. B gave the information before he knew the reward had been offered; it was held that he could not get the reward since he had not acted in reliance upon the offer. Acceptance of the offer must be established by proving that the act was done in reliance upon the offer. It must be clearly shown also that the alleged offeror actually intended to make an offer. Mere statements of price are not offers which will bind one if accepted by the other party. In a leading case Kershaw & Son wrote to Moulton: "In consequence of a rupture in the salt trade, we are authorized to offer Michigan fine salt at 85 cents per barrel. Shall be pleased to receive your order." Moulton telegraphed that he would take 2,000 barrels, which Kershaw refused to deliver. The court held that there was no offer which bound

Kershaw when Moulton telegraphed his order. Kershaw's letter was held to be merely an advertisement or business circular, to call attention to the fact that good bargains in salt could be had by applying to him. As it was not an offer Moulton's rejected order could not unite with it to form a contract. In another case A telegraphed B: "Will you sell Bumper Hall pen? Telegraph lowest cash price." B replied: "Lowest price for Bumper Hall pen $4,500." A telegraphed at once accepting the alleged offer. But the court held that no contract had been made, since B's telegram was not an offer. Statements made in the form of an offer may be made under such circumstances that no offer will be held to have been made. In a Tennessee case A, who had just been wounded and his son killed in a shooting affray, exclaimed that he would give $200 for the arrest of their assailants. B later helped arrest the assailant and sued for the recovery of the reward. But since A was greatly excited the court said that his statement should be regarded as a mere exclamation and not as an offer. We have just seen that not all proposals in the form of offers are to be so regarded.

Ordinary advertisements are not construed as offers, but merely as invitations to deal with the advertiser. Circular letters sent to the trade by a wholesale merchant fall within the same rule. But it is not impossible to word an advertisement in such a way that it will be an offer, for it may be

clear in the advertisement that its author intends it to be an offer. In a famous English case the Carbolic Smoke Ball Company advertised that they would pay $500 reward to anyone who used their smoke ball three times daily for two weeks, and contracted influenza. A purchased one of the balls; used it as directed; contracted influenza; and then sued for the reward. It was held that there was a valid contract and that he could get the $500. The court said the company had plainly meant the advertisement to be an offer, because they stated that they had deposited $500 in a certain bank as evidence of their good faith, and this statement would justify A's belief that this was a real offer and not an ordinary advertisement.

An offer may be changed or revoked (withdrawn) before it is accepted. The person to whom the original offer was made must be informed of the revocation. Thus, if A says to B: "I will give you $50 for your watch," he may withdraw this offer any time before B, by words or conduct, signifies that he will accept. Suppose A wrote to B, before the latter had accepted, saying that he withdrew his offer; B would still have the right to accept until he received A's letter. A change in the terms or conditions of an offer is the same as a new offer, but must be brought also to the attention of the offeree, or he may accept the old offer. There are, however, some qualifications to the rule that an offer may be changed or revoked

before it is accepted. If B gives A $10 to keep a certain offer open for two weeks, then A cannot withdraw his offer before that time. Such arrangements are known as "options." If A had said he would keep the offer open two weeks but had received nothing from B for saying he would, then he can withdraw his offer any time before it is accepted. Where an offer is made to the public generally, as where a reward is offered for the arrest of a criminal, then it will be enough to make the withdrawal in the same way the offer was made

AN OPTION AGREEMENT

Cleveland, Ohio, June 6, 1911.

This agreement witnesseth that George H. Jones promises to pay Ralph Clark One Hundred Dollars ($100) five weeks from today. In consideration whereof, Clark hereby gives Jones an option, good during the remainder of the month of June, 1911, to purchase Clark's farm "Blackacre" for Four Thousand Dollars ($4,000). Unless Jones gives Clark written notice by June 30, 1911, that he will buy the said farm at the said price, this option shall be void. In any event, Jones shall be required to pay Clark the before mentioned sum of One Hundred Dollars ($100) five weeks from date. If he shall exercise this option, the said sum shall be applied toward the purchase price of the farm "Blackacre."

(Signed) GEORGE H. JONES.
RALPH CLARK.

(through the newspapers or by circular, etc.). The one who makes the offer does not need to notify the offeree himself that he has decided to withdraw his offer; the latter may learn it from a third party and lose his right to accept.

An offer will not continue indefinitely where there is no statement that it is limited to a certain time. In such cases the offer is said to expire when a reasonable time has passed; in each case the question of what is a reasonable time is one which depends on the facts. Where the person making the offer dies before it is accepted, the offer is held to have been revoked. No notice is necessary to the offeree of his death. The same rule holds where the person making the offer becomes insane before it is accepted.

ACCEPTANCE. — The acceptance of an offer must be unqualified—in accord with the exact terms of the offer. If A says to B: "I will sell my farm for $10,000," and B says: "I will consider your offer, but I offer you now $8,000 for the farm," it is held that this is a rejection of A's first offer and a new offer by B to A. B could not afterwards say to A: "I accept your offer to sell me your farm for $10,000" and force A to sell it to him. The acceptance must be communicated to the person who has made the offer, and in the manner which he had intended. Where an offer is made by mail it is natural to suppose that the acceptance is to be made by mail and, unless some other method

is expressly specified, the acceptance becomes binding as soon as it is mailed. A person cannot force another person to accept or refuse an offer; for instance, A cannot say to B: "I have shipped you certain goods at certain prices, and if I do not hear from you will consider you have accepted them." B is not bound to notify A he will not take the goods; this is a convenience, for it would be a hardship to allow manufacturers or others to ship goods to anybody without request and then say that unless the other party notified them he would have to pay for the goods. Where an offer is made to a specific person, only that person can accept. If the offer is to the public in general, then any member of it who does what is asked for becomes a party to the contract. Sometimes an offer says: "Reply by return mail." This does not mean the first mail that goes out after the offer is received, but a letter posted on the day the offer is received.

REALITY OF CONSENT.—There must be a real understanding between the parties as to the contract they have entered into. Both must have had the same thing in mind. Although there have been offer and acceptance, the consent shown by them may not be real. There are five things which may deprive an agreement of reality of consent — mistake, misrepresentation, fraud, undue influence, force. They will not render the contract void, but only voidable.

(a) Mistakes are not usually important enough

to overthrow a whole agreement. But where both parties think the subject matter of the contract exists but are wrong, then no contract can arise; and when they are mistaken as to the identity of the subject matter then the same thing is true. However, when both parties are mistaken as to the quality of an article the contract is usually not affected. If only one party is mistaken as to the quality of an article the contract is usually not affected. If only one party is mistaken the contract is still good if he was not deceived by the other party. This is not true where the nature of the contract is concerned. If A persuades B to sign a check by pretending that he is signing something else, B is not bound to pay A. And if B thought he was dealing with C, with whom he has been accustomed to deal, but whose business had been bought by A, then he is not bound on a contract with A, since everybody has a right to choose the people with whom he deals. When one party to a contract innocently misleads the other, the second party can refuse to do his part if he can show that he was justified in relying on the other's statement and that the statement was relied on by him and had resulted in injury or loss to him.

(b) Fraud is different from misrepresentation in the fact that one person has deliberately tried to deceive the other. A party can refuse to perform his part of a contract on the ground that the

other party practiced fraud upon him if he can show (1) that he believed the other's statements; (2) that as a result of those statements he gave his consent to the agreement; (3) that he has suffered as a result of the fraud.

(c) Undue influence is a wrong use of power over somebody else's will which causes that person to make contracts or gifts that otherwise he would not have made. Superior intellect is frequently used for this purpose.

(d) Force consists in actual or threatened force to another if he does not do some particular thing. The person making an agreement, when forced to do so by the threats of another that he will injure his body or his property, may afterward repudiate the contract.

CONSIDERATION.—When we say there must be "Consideration" in a contract we simply mean that neither party has a right to get anything from the other unless he has given or promised something in return. If A promises to give his watch to B, B cannot make A give it to him unless he has given something for this promise. In negotiable instruments, such as checks and drafts, it is presumed until it is shown to be untrue that a consideration exists. It is not necessary that the consideration equal the promise in value. For instance, if A had promised to give his $50 watch to B and B had given A a $5 pipe, there would be consideration and B could make A give him the

watch. Neither is it necessary that the promissor (the one who makes the promise) receive any benefit from the consideration given by the promisee. For instance, A promises to give B his $50 watch if B will paint C's barn. B does so, after obtaining the consent of C; he can force A to give him the watch, even though A may not have received any benefit from what B has done.

A promise to do something is a sufficient consideration for another promise. A promises to sell B a coat from his store and to deliver the coat at a certain time; B promises to receive and pay for the coat. Each one's promise is a consideration for the other's promise. This would not be true if A was legally bound to deliver the coat to B anyway, because B would have a right to the coat whether he promised A anything or not. If A had, without B's knowledge, sent the coat to B's home and B then promised to pay for it, A could not compel him to do so, since B's promise is said to rest on a past consideration. Where the consideration itself is illegal, no legal contract results. Thus, A promises to pay B $100 if B will steal some papers from C. B get the papers, but he cannot recover the $100, because what he has done is illegal. Promises to pay money lost in gambling cannot be enforced, since all gambling contracts are illegal. Under the common law the presence of consideration is not required when the contract is in writing and under seal, because it

is said that the seal itself shows that there was a consideration. This has been changed in some States, so that a consideration must be proved to exist even if there is a seal.

CONTRACTS THAT MUST BE IN WRITING.—Some contracts are required by law to be in writing. The Statute of Frauds, enacted in 1676, was the first great law to say what contracts should be in writing. It has been passed by the legislatures in almost all the States. The fourth section of the statute says that the following kinds of contracts must be in writing:

(a) Promises by executors or administrators to pay personally something due from the estates they are administering.

(b) Promises that another person will pay his debts (guaranty and suretyship).

SPECIMEN FORM OF GUARANTY—REQUIRED TO BE IN WRITING

I hereby guarantee to any person advancing money to Aleck Stewart not exceeding One Thousand ($1,000) Dollars, the payment therefor at the expiration of the credit which shall be given.

PERRY MONTAGUE,
1521 Xerxes Avenue,
Toledo, Ohio.

February 14, 1913.

(c) Promises to do anything, such as changing the ownership of property, in consideration of marriage; that is, where the marriage itself is the consideration for the promise as to the property.

(d) Contracts for the sale of lands or any interest in them must be in writing. Oral contracts for the sale of real estate are generally not worth anything. The phrase "interest in lands" includes such things as contracts for the sale of uncut timber, grass, minerals in the soil and growing crops of various kinds—before taken from the soil. Contracts concerning them must be in writing.

(e) Contracts not to be performed within one year from the time the contract is made must be in writing. But if it may be fully performed within one year it does not have to be in writing.

The seventeenth section of the statute provides that a contract for the sale of goods, wares and merchandise (that is, any personal property) worth $50 or more must be in writing unless the buyer (1) accepts part of the goods sold and has actually received them or (2) gives something in part payment. This amount, however, varies in the different States and in some States it is not included in the Statute of Frauds. The writing which is required if neither of these other things occurs may be a mere note and very informal. If the contract is not for goods, wares and merchandise, but for work, services and materials, the above provisions do not apply.

INTERPRETATION OF CONTRACTS.—A contract is an agreement. Judges try to discover what was the real meaning of the parties to any contract. Every word or phrase used in a contract is important, since it is difficult to prove by other evidence that the words used should not be strictly construed. Judges will give to all words their ordinary meaning unless it appears that they were used in some technical sense. Business customs are often considered in trying to prove what the parties to a contract really meant. When printed clauses or words do not agree with written ones the written ones will always be taken to be the real meaning of the parties.

RELATION OF THIRD PARTIES.—No one can be made liable on a contract who is not a party to it. A and B have no power to make a private agreement which can compel C to do something. Suppose A and B had agreed that B was to do something for C. Can C sue B if B does not do what he has agreed to? Here the contract has been specifically made for C's benefit. In this country the general rule is that a third person may enforce a promise made for his benefit even if he has furnished no consideration for the promise. If, after A and B have made a contract, can they both agree with X that he shall take B's place? This is permitted, and is really a new contract. But can A, without obtaining B's permission, give his (A's) rights to X and compel B to deal with X?

In most kinds of transactions this is permitted. But A would still be liable to B if X did not do what A had agreed to do.

ASSIGNMENT OF CONTRACT

For value received I hereby assign to X the within contract.

St. Paul, Minn., June 29, 1917. A.

DISCHARGE OF CONTRACTS.—Contracts may be discharged (obligations destroyed) by acts of the parties. Both parties may agree to abandon a contract they have made. Or if one party fails to do his part the other is not compelled to do his, and may sue the first party for his failure. Where one party promises never to sue the other

DISCHARGE BY RELEASE

Know All Men by These Presents, That I, A, of Chicago, Illinois, for a good and valuable consideration, hereby release and discharge B, of Minneapolis, Minnesota, from every claim or demand of any kind or nature.

In Witness Whereof, I have hereunto set my hand and seal this twenty-second day of May, 1917.

(Signature) [Seal]

if he does not do his part, this is the same as releasing the other party. Both parties may agree to substitute a new agreement for the old one. The contract may itself say that either party may abandon it within a certain time. When either party does what he has promised to do he is discharged.

A contract may also be discharged because when it was made it was impossible for one or both of the parties to do what they promised. When it becomes impossible after the contract is made to do what was agreed on, the contract will not be discharged except:

(a) Where a change in the laws or some act of law makes it impossible legally to do what was agreed.

(b) When the existence of a specific thing is necessary, its destruction will discharge the contract, unless, of course, one of the parties was to blame. Thus, A agrees to rent a hall to B. The hall burns down before the time when B was to occupy it. The contract is discharged.

(c) When one party has agreed to work for another, the death or disability of the one who has agreed to do the work will discharge the contract.

A person may be discharged by being declared bankrupt.

BANK ETHICS

In the business of banking magnetic personality means much, but it does not mean everything. There may be too much glad hand and too little straight eye and perpendicular conscience. Palaver and entertainment may get some new bank accounts, but only efficient service and complete confidence can keep them. A reputation for just and uniform treatment of customers is more attractive than a reputation for favoritism—even to favorites. To get and keep business, as well as to get and keep friends, the good and true in ourselves and others, and not the weak and vicious, should be cultivated. Associations of bankers, State and National, are educating the fraternity in professional ethics, and as a result competition is now directed not so much toward cutting throats as toward developing new business and elevating the standard of the banking profession. Bankers as a class are honest not only from inclination but from necessity. Character is the greater part of their capital, and its impairment would be disastrous. It is to their interest not only to maintain integrity among themselves, but to promote integrity in others. It is to their interest to make the world better as well as richer. Self-interest may not be the ideal motive for exalting the golden rule and decrying the golden calf, but the presence of self-interest does not imply the absence of devout sincerity in preaching and practicing what is right.—George E. Allen.

CHAPTER III

Drafts and Acceptances

WHAT IS A DRAFT?—A "draft" is a written order drawn by one party called the drawer on another party called the drawee for the payment of money to a third party called the payee, the amount to be charged to the drawer. The terms "drafts" and "bills of exchange" are often used in referring to the same things. When either "drafts" or "bills of exchange" are referred to in this chapter the remarks made will apply to both drafts and bills. For instance, A owes B $1,000. A has $1,000 owing him by C. So A gives B a piece of paper which orders C to pay $1,000 to B. Drafts are valuable chiefly because they are negotiable—that is, B could endorse the above draft to D, who would then have a right to the $1,000. Drafts frequently pass through many hands before they are presented for payment.

SIMPLE FORM OF A BILL OF EXCHANGE

Chicago, Ill., Dec. 21, 1916.

Pay to the order of Edward March one thousand dollars ($1,000).

HENRY GRANT.

To Temple Cole,
211 Prairie St.,
Cincinnati, Ohio

SPECIMEN FORM OF DRAFT.

NO PROTEST TEAR THIS OFF BEFORE PRESENTING.

PA.,_____ 19

_____ *Pay to the*

Order of THE FIRST NATIONAL BANK $_____

_____ *Dollars,*

Value received, and charge the same to account of

TO_____

_____

_____

Before the words "pay to" the time when the draft is due should be inserted—as "at sight" or "30 days after date."

THE PARTIES.—There are always three parties to a draft: (1) the drawer, (2) the drawee (or payer), and (3) the payee. Only a drawee may become an acceptor. In the accompanying illustration A is the drawer, C the drawee, and B the payee. The drawer is the maker or person who orders one person to pay another. The drawee is the person who is ordered to pay the money. The payee is the person to whom the money is to be paid. In writing a draft it is customary, though not necessary, to place the name of the person who is to pay it—the drawee—in the lower left hand corner. (Checks are a special kind of bill of exchange and are considered in another chapter.) The bill is addressed to the drawee. He may be asked to show his intention to honor the bill—that is, to pay it—and if he does so he becomes an "acceptor." This assent is usually shown by writing his name with the word "Accepted" on the face of the bill.

USES OF DRAFTS IN COMMERCE.—Drafts are much used by business men to collect accounts. For instance, A, living in Minneapolis, owes B, a dealer in Chicago, $500 for goods purchased. If A does not send the money after a certain time, which is usually specified in the invoice, then B may draw a draft on A for the amount due. It would be in substantially this form: "To A: Pay to C $500. B." C would very often be a bank. It might in this case either be a Chicago bank or B

might have drawn it payable to some bank in Minneapolis. If it were a Chicago bank that bank would have endorsed it to some bank in Minneapolis and sent it there for collection. B has really made the Chicago bank his agent for the collection

NOTICE OF IRREGULARITIES IN DRAFT DRAWN ON A BANK AND PAID BY IT

ST. LOUIS, MO. _____ 19___

_____

_____

DEAR SIRS:—YOUR DRAFT ON US NO. _____

FOR $_____ WAS PRESENTED TO US TODAY

WITH THE IRREGULARITIES NOTED BELOW:

IRREGULARITIES

_____

_____

_____

_____

_____

WE PAID THE DRAFT, HOWEVER, BELIEVING THIS TO BE IN ACCORDANCE WITH YOUR WISHES AND WE WILL ASK YOU TO KINDLY CONFIRM OUR ACTION.

YOURS TRULY,

CONFIRMATION.

DATE _____ 19___

TO THE NATIONAL BANK,

DEAR SIRS:—WE HEREBY CONFIRM YOUR ACTION IN PAYING THE ABOVE DESCRIBED DRAFT.

YOURS TRULY,

_____

ADDRESSEE WILL PLEASE SIGN AND RETURN THIS SHEET

of the money. Or he may have sent it direct to the Minneapolis bank. In either case the Minneapolis banker, when he gets the draft, will send it around to A by one of the clerks whose business it is to look after collections. If A is willing to pay the draft he writes across its face "Accepted," with the date, and signs his name. Of course, he is not bound to accept it, but after he does accept it he is obliged to pay it when it becomes due. In the case of a "sight" or "demand" draft, acceptance can be shown only by payment. But suppose A had lived in some place without a bank. Then B could have sent the draft to the postmaster or some other responsible person for collection. Very small charges are made by banks for collecting bills of exchange. Suppose this was a draft payable in thirty days. B may not wish to wait so long to get his money. In that case, the bank that he has constituted his agent will, after the draft is accepted, discount it—that is, credit B with the amount of the draft less the interest on it, calculated from the date the draft is discounted to the date the draft is due.

WHAT DRAFTS MUST CONTAIN TO BE NEGOTIABLE.—Not all orders are negotiable—i. e., capable of passing from one person to another. A simple order, "Pay to X," would not be negotiable, for such an order must be paid to X and to X alone. It is very seldom that such a bill is issued. Usually bills are made in such a way that

one person can transfer his rights to another person. That is one reason why they are so important in the business world. There are certain qualities or requisites which a bill or draft must contain to be negotiable. These are as follows:

(1) It must be in writing and signed by the drawer.

(2) It must contain an unconditional order to pay a sum certain in money.

(3) It must be payable on demand or at a fixed or determinable future time.

(4) It must be payable to order or to bearer.

(5) The drawee must be named or otherwise indicated with reasonable certainty.

A BILL OF EXCHANGE MUST CONTAIN AN ORDER.—It must in imperative terms direct the drawee to "Pay to A" the sum specified. There must be no qualifying statements. A request to pay, or an authority to collect money due, is not an order, though it is often hard to tell from the language used just what is meant. An order implies in its terms a right to command and a duty to obey. Words of politeness, however, will not deprive an order of its imperative quality. "Please pay X" is a common phrase, but is held to be an order. The following was held to be a bill of exchange: "Mr. Nelson will oblige Mr. Webb by paying J. Ruff, or order, twenty guineas on his account." The order must be unconditional on its face. If a bill was to be payable only if some

specified event should happen it would be of little value in business, since the event might never happen. Even if the event should afterwards take place the instrument would not then become a bill. Suppose A has two accounts with the firm of B and draws a draft on B in the following words: "Please pay C, or order, $500 and charge account No. 1." Is this a negotiable instrument? It has been held to be. There is an unqualified order to B to pay C, or order, the $500 and the words "charge account No. 1" are only an indication to B of the account to which the bill is to be charged after it is paid. The fact that the consideration may be stated does not make the instrument conditional. Suppose the above bill had read: "Please pay C, or order, $500, account five typewriters." This is still an unconditional order to pay C, or order, and the statement of the consideration does not affect it.

A BILL OF EXCHANGE "MUST BE PAYABLE ON DEMAND OR AT A FIXED OR DETERMINABLE FUTURE TIME."—There must be certainty as to the time when a bill will be due, or no one would take it from anybody else. An instrument is payable on demand (1) where it is expressed to be payable on demand, or at sight, or on presentation; or (2) where no time of payment is stated. An instrument is payable at a fixed time if it says, for example, "30 days after date." An instrument is payable at a determinable time when the date can be fixed with reference to the happen-

ing of an event certain to happen. Death is sure to come, though the time of its coming is uncertain, so an order to pay thirty days after death would be binding. Suppose an order said "Pay to X $500 when he becomes twenty-one years of age." This would not be negotiable, since X might never become twenty-one.

THE AMOUNT TO BE PAID MUST BE CERTAIN.—If the bill had read "$500 and accrued taxes," then it would not be negotiable, for the amount payable at maturity is uncertain. But stipulations for interest at a given rate, or for the payment of costs of collection and attorney's fees, if not paid at maturity, do not affect the negotiability of a bill. The order to pay must be to pay money. The money must be that of the country where the order is payable. For instance, a note payable in Canada but made in Illinois must be payable in Canadian money. By business customs the following terms mean money: "currency" and "current funds," so a bill containing an order to pay $500 in "currency" or "current funds" will be negotiable. A particular kind of legal tender may be designated, such as gold eagles or pennies. There must not be an order to pay money and (or) something else. An order "Pay X $500 and give him my horse Black Star," or "Pay X $500 or give him my horse Black Star" will not be negotiable—the payee or anybody to whom the bill is endorsed must be certain of getting money alone if he wishes

it. But if X was to have the choice of taking the money or the horse it would be all right. In other words, if the maker of a note has the election of paying money or giving something else, the note is not negotiable. If the holder has the option of requiring something to be done in lieu of the payment of money, the note is negotiable, because the holder can always demand money.

KINDS OF DRAFTS. — We have seen that there are three parties to a bill. A party may make a bill payable to himself and thus, while there will technically be three persons involved, there will actually be but two people—the drawer and the drawee. The drawer in this case is also the payee. Drafts are either "personal drafts" or "bank drafts." Personal drafts are orders drawn on one person by another to pay a third person. Bank drafts are drawn by one bank on another, directing the latter

FORM OF BANK DRAFT.

No. 801 Tacoma, Wash., May 22, 1917.

FIRST NATIONAL BANK OF TACOMA

Pay to the order of H. Irving Scott ($1,081.50)
One thousand and eighty-one and 50-100 Dollars.

(Signature)
Cashier.

To Corn Exchange Bank,
Chicago.

to pay a certain sum of money to a third party. It is simply an order which one bank draws on another bank. Practically all banks keep funds on deposit in banks in other cities, especially in the larger financial centers. In this way they are able to meet the demands of customers who often wish a form of payment that will be accepted without question. Bank drafts pass practically as cash almost everywhere in the country. Drafts on New York are known as "New York Exchange." Suppose that Kane & Co. of Toledo wish to send $1,000 to a firm in Buffalo for goods to be shipped immediately. They send to their bank in Toledo a check for the amount, only in place of the payee's name they write the words "New York Draft." Their bank then proceeds to make out a draft on its New

CUSTOMER'S APPLICATION BLANK FOR DRAFTS.

DRAFTS WANTED

The National Bank

Bought by_____

PAYABLE TO THE ORDER OF	ON WHAT CITY	AMOUNT

York correspondent, payable to Kane & Co., for $1,000. Kane & Co. endorse the draft, making it payable to the Buffalo firm, and mail it to the latter. By having the draft drawn to themselves, instead of to the Buffalo people, Kane & Co. have an instrument which serves as direct evidence of the transaction, and when endorsed and transferred acts as a voucher. Or Kane & Co., instead of having themselves made the payee, might have had the Buffalo firm made the payee.

Bank drafts are much used by business men to send remittances of money from one part of the country to another, and are probably used more for that purpose than any other method of payment. Nearly all banks furnish application blanks for drafts. Drafts are either "sight" or "time." Sight drafts are payable at sight—on demand; time drafts are either payable at a fixed time after sight or after date or after some event which is sure to happen.

ENDORSEMENTS. — A draft may be transferred from one person to another by endorsement when it is made payable to order. When payable to bearer no endorsement is necessary except that it is customary for banks to induce, as far as possible, the person receiving the proceeds of a bearer draft to endorse the draft in order that there may be evidence showing who received the money. The person who makes the endorsement is the "endorser"; the one to whom he endorses it is the "endorsee." If an instrument is payable to the

SPECIMEN FORM OF DRAFT REGISTER.

DRAFTS DRAWN ON

DATE	IN FAVOR OF	NUMBER	AMOUNT	EXCHANGE	TOTAL EXCHANGE	TOTAL DRAFTS	BY WHOM PURCHASED
	Am'ts Brought Forward						

order of two or more payees or endorsees who are not partners, then all must endorse when the bill is given to anyone else, unless the one who does endorse has authority to endorse for the others. Thus, a bill is payable to A and B. A, without authority from B, endorses it to C. C, however, does not get the title to the bill, because the transfer is not the act of both owners, A and B together being the owners of the bill. Suppose the bill had been payable to a firm. If one partner endorses it in his own name no title passes to the endorsee, even if the one partner has been authorized by all the other partners to endorse it, for the endorsement is not the endorsement of all the owners. The proper way is to endorse it in the firm name. To be effective an endorsement must be in writing on the draft. It must be an order to pay the endorsee (who is also known as the "transferee"). It must direct the payment to the transferee of the whole sum due on the instrument. Of course there is no objection to endorsing a draft after part of the sum due has been paid—provided that the whole of what is yet due is directed to be paid. The draft with the endorsement on it must be "delivered" to the transferee. "Delivery" means a physical transfer of the bill. "Endorsement," as used in this connection, therefore means endorsement and delivery, both of which must occur. Suppose A, the payee of a bill, wrote on it: "Pay to C (Signed) A," and put it in his safe. The endorsement in such

a case is not complete. Let us imagine that C breaks open the safe and steals the draft—the endorsement is then complete. Of course C himself, because he is a thief, cannot take advantage of his theft by trying to collect on it. But he can transfer it to an innocent purchaser who may collect on it.

NOTICE BY BANK OF DRAFTS DRAWN

The First National Bank

.....191

.....

We have drawn the following drafts on you to-day

NO.	ORDER	AMOUNT		

Yours truly,

Cashier.

DIFFERENT KINDS OF ENDORSEMENTS. — Endorsements may be "special," "in blank," "restrictive," "qualified" or "conditional." A special endorsement names the person to whom, or to whose order, the instrument is to be made payable; the endorsement of such endorsee is necessary to pass the bill to anybody else. Special endorsements are like the following: "Pay to X (signed) A"; "Pay to X or order (signed) A"; "Pay to the order of X (signed) A." An endorsement in blank occurs when the payee writes his name on the instrument without naming any endorsee. As long as the payee's endorsement remains "blank" the draft can be passed from one person to another by delivery and for all practical purposes can be regarded as payable to bearer. However, anyone who gets hold of a draft endorsed in blank can change it from a blank to a special endorsement.

A "restrictive" endorsement is one which either (1) prohibits the further passing of the bill or (2) makes the endorsee the agent of the endorser or (3) gives the title in trust to the endorsee for the benefit of some other person. "Pay to X only" is an example. To make an endorsement restrictive there must be words in the endorsement itself which specifically render it so. Endorsements making the endorsee agent or trustee of the endorser are the most common kind of restrictive endorsements. Endorsements "for collection" are perhaps the commonest form of restrictive endorse-

EXAMPLES OF ENDORSEMENTS

Draft: To Carter & Co.: Pay to Allan Young $500. (Signed) WENDELL BURNS.

Blank Endorsement: ALLAN YOUNG.

Special Endorsement: Pay to order of James Knight. ALLAN YOUNG.

Qualified Endorsement: Without recourse.
ALLAN YOUNG.

or

Pay to James Knight, without recourse.
ALLAN YOUNG.

Restrictive Endorsement: Pay to James Knight for collection. ALLAN YOUNG.

or

Pay to Bank X, for collection for my account.
ALLAN YOUNG.

or

Pay to James Knight for my use.
ALLAN YOUNG.

Conditional Endorsement: Pay to James Knight or order if . . . ALLAN YOUNG.

Waiving conditions: Waiving protest.
ALLAN YOUNG.

or

Pay to James Knight, waiving protest.
ALLAN YOUNG.

There may be successive endorsements as follows:

Pay to James Knight. ALLAN YOUNG.

Pay to Herog & Kastner. JAMES KNIGHT.

Pay to George Vincent.
HERZOG & KASTNER.

etc., etc.

ment. Other examples are "Pay to X for account of A (signed) A" or "Pay to X for my use (signed) A." This sort of endorsement notifies anyone who may take the bill from X that X is not the real owner, but only an agent. So if X should pass it to Y, and Y should get any money on it, A would have a right to all Y had received.

When A endorses a bill to X, either by a special or blank endorsement, he guarantees that if the maker or acceptor (drawee) does not pay, he will. Suppose he does not wish to assume this risk. Then he can give a "qualified" endorsement. "Without recourse" and "not holden" are examples of such endorsements. The only effect is to do away with his obligation to pay if the maker or drawee does not. The bill can still be negotiated.

The following would be a "conditional" endorsement: "Pay to X, or order, if I become captain in the New York Infantry within sixty days. (Signed) A." The party required to pay the instrument may disregard the condition and pay the endorsee or his transferee whether the condition has been fulfilled or not. But the endorsee would hold the bill or any money he might get from it subject to the rights of the person who endorsed conditionally. In the above case let us suppose that P, the payee, paid the amount of the note to X. A does not become a captain. He cannot collect again from P, but he can get from X the money

that the latter received from P. Or if X had not collected from P then A could get the bill from X or from anybody to whom it had come.

ENDORSEMENT "FOR COLLECTION."— Sometimes a person holding a bill finds that it is necessary to send it for collection to some place where there is no bank. Then he must ask someone else to collect it for him. If he knows the person very well he may simply endorse it to the other person, but there is always a slight danger that the other person would pass it on, which he could legally do, so it is best in such cases to add the words "for collection" to the endorsement. This checks any further passing of the bill, since anyone to whom it is offered can easily see that it was the business of the person to whom it was endorsed to collect it for the endorser. Endorsement "for collection" is also used when there is doubt concerning the goodness of a check or a draft payable elsewhere at a future date. Some banks refuse to accept drafts endorsed "for collection." Suppose X has endorsed to A bank "for collection." A bank, to make collection easier, employs B bank to do the actual collecting. B bank then holds the money it gets for X's benefit, just as A bank would have done.

ACCEPTANCES. — Until the drawee of a bill accepts it he is under no liability. Of course the drawer might sue the drawee for not honoring (accepting) the bill, but the holder of the bill could

not make the drawee pay him. An acceptance usually takes the form of writing on the face of the bill "Accepted" and the drawee's signature. Only the drawee can accept—he then becomes the "acceptor." His acceptance really means that he says: "I am indebted to the drawer for the sum named in the bill and hereby guarantee that I will pay the bill according to its terms and charge the amount

FORM OF COMMERCIAL SIGHT DRAFT.

$500.00 Minneapolis, Minn., July 3, 1917.

At sight—Pay to the Order of Federal City Bank of Minneapolis Five hundred and no/100 Dollars. With Exchange.

Value received and charge to account of

To George H. Jones,
Winona, Minn. Peter Simpson.

A SAMPLE ACCEPTANCE.

"Accepted July 10, 1917.
Payable at Flour Exchange Bank.
George H. Jones."

These words would be written across the face of the bill by Jones, usually in red ink.

to the drawer's account." In other words, he makes a contract that he will pay the bill according to the terms of his acceptance. The acceptance must be in writing. It need not be on the bill, but may be on a separate piece of paper or even by telegraph. A prospective drawee may make a contract with the drawer to accept a bill to be drawn. Whether oral or in writing this contract is binding. The fact that a bill has been accepted adds, of course, to its negotiability, for people are more willing to take it. When the bill is presented to a drawee for acceptance he is allowed twenty-four hours to decide whether he will accept it or not.

When a draft is sent "with exchange" the drawee pays the face of the draft and the exchange charges also. Otherwise the collecting clerk of the bank deducts the charges when remitting the money collected to the person who has sent the draft to the bank "for collection."

ACCEPTANCES ARE GENERAL OR QUALIFIED.—A "general" acceptance makes no qualification to the order of the drawer; a "qualified" acceptance changes the bill as it was drawn by the drawer. An acceptance is qualified which makes payment depend on any condition, or is only for a part of the amount specified, or changes the time or place of payment. The holder may require an unqualified acceptance or treat the bill as dishonored (dishonor will be considered in the following paragraph). The holder may take a qualified

acceptance, but if he does so the drawer and endorsers are discharged from liability on the bill unless they assent to it after becoming aware of it. They will be held to have assented unless within a reasonable time after acquiring knowledge of the circumstances they notify the holder that they have not thus assented. Many business men dislike to have drafts drawn on them. It is best, therefore, not to draw on a person unless you have notified him of your intention to do so.

DISHONORING A DRAFT.—A person who refuses to pay or to accept a draft drawn on him

STANDARD "NOTICE OF DISHONOR" FORM USED BY NOTARIES.

Chicago, Ill., Sept. 11, 1915.

PLEASE TO TAKE NOTICE that a draft drawn by Ralph Clark for $1,000 and interest, dated July 10, 1915, payable at the Union National Bank, Sept. 10, 1915, and endorsed by you, has been dishonored. payment having been duly demanded at its maturity and refused, and that said draft has therefore been PROTESTED for non-payment and that the holders look to you for payment thereof, and of all damages, costs and charges thereon.

Yours very truly,

PAUL HAMMER, Notary Public.

Union National Bank.

To JOHN SMITH.

SPECIMEN CERTIFICATE OF PROTEST.

United States of America,
State of Illinois,
City of Chicago.

On the 19th day of March, 1908, at the request of the Union National Bank, I, Paul Hammer, a Notary Public of the State of Illinois, duly commissioned and sworn, did present the original Draft hereunto annexed, at the Union National Bank, No. 410 State Street, Chicago, the place at which it was payable, and demanded payment, which was refused, ...

_____

_____

_____

Whereupon, I, the said notary, at the request aforesaid, did Protest, and by these presents do publicly and Solemnly Protest, as well against the Endorser of the said draft as against all others whom it doth or may concern, for exchange, re-exchange, and all costs, damages, and interest already incurred and to be hereafter incurred for want of payment of the same.

Thus done and protested in the City of Chicago aforesaid.

PAUL HAMMER, Notary Public,
Union National Bank.

(Notary's)
(Seal)

is said to have "dishonored" it. The drawer, of course, must make good any drafts he has given to anyone which have been dishonored. When a draft is dishonored the holder is entitled to immediate payment from the drawer or endorsers, even though it may not be due for months or years. The drawer and endorsers must be notified either orally or in writing that the draft has been dishonored, and steps must be taken within the same day to give them the notice they are entitled to receive. Drawer or endorser may waive the requirement of notice. But a failure to notify them, unless they waive their right, will discharge them, except as against a later innocent purchaser (one who did not know the bill had been dishonored).

NOTICE OF DISHONOR.—The notice of dishonor may be in writing or oral, and may be given personally or through the mails. It may be quite informal, and is sufficient if it fairly identifies the draft and indicates that it has been dishonored. The notice may be given by the holder or anyone who would be liable to the holder and who upon taking it up would have a right of reimbursement from the party to whom he gives notice. The holder or other person may give the notice personally or it may be given in their behalf by someone else.

PROTEST OF DRAFTS.—Protest is a declaration by a notary public in behalf of the holder of a bill that it has been dishonored and a "protest"

that any loss arising shall be borne by the drawer or endorsers. In the case of foreign bills (drawn in one State and payable in another) protest is absolutely necessary. In the case of inland bills (payable in the same State it is drawn in) it may be made. In most banks some clerk is a notary.

The protest is required to be annexed to the bill or must contain a copy of it, and must be under the hand and seal of the notary making it, and must specify:

(1) The time and place of presentment.

(2) The fact that presentment was made and the manner of presentment.

(3) The cause or reason for protesting the bill.

(4) The demand made and the answer given, if there was any. Or the fact that the drawee or acceptor could not be found.

If neither the place of drawing or the place of payment appears on the bill the holder may treat it as an inland bill. This relieves him of the necessity of determining at his peril whether a protest is necessary. To fix the liability of the drawer and endorsers of bills of exchange there must be for both inland and foreign bills a due presentment for acceptance or payment and due notice of dishonor. In the case of foreign bills an additional act—protesting the bill—must be performed.

CHAPTER IV

Promissory Notes and Discounts

WHAT IS A PROMISSORY NOTE? — A promissory note is a promise made in writing by one party, called the maker, to pay a sum of money on demand or at a fixed or determinable future time, to another party, called the payee, or to his order. Promissory notes and bills of exchange are written contracts. Consideration is always held to exist in the case of bills and promissory notes until it is positively shown that it does not. The accompanying simple form of promissory note signed by Philip Smith might have read: "On demand after date" and "to John Wagner or order," and the provision for interest might be omitted. In the accompanying form of note, Philip Smith is the "maker" and John Wagner is the "payee." A promissory note must contain an unconditional promise to pay in money a definite sum. Usually the words "I promise to pay" are used, but they are not necessary. Any words which mean the same thing may be used. For instance, the words "Good to bearer" just as clearly show a promise to pay. But mere admissions of debt are not sufficient. Thus, such phrases as "I owe X"; "Due X"; "I. O. U.," etc., merely admit that a debt exists and are not promises to pay the debt. Like bills, promissory notes are either "demand" or "time."

SPECIMEN FORM OF PROMISSORY NOTE.

Statetown,......, 191..... No. .....

..... after date.....promise to pay Due.....

to the order of..... $.....

.... Dollars .....

at the **First National Bank of Statetown** .....

59-16.

Value received.

.....

They may be issued by firms and governments and institutions, as well as by private individuals. Bank notes, United States notes and certificates of deposit are forms of promissory notes.

SIMPLE FORM OF PROMISSORY NOTE.

Minneapolis, Minn., July 3, 1917.

Two months after date I promise to pay to the order of John Wagner five hundred dollars, with interest at six per cent.

PHILIP SMITH.

USES OF PROMISSORY NOTES.—Suppose A buys from B $1,000 worth of merchandise. If he is not able to pay in cash, or does not wish to do so, he may give B his promissory note. This is but a promise to pay B either on demand or at some fixed or determinable future time. Or he may himself have a promissory note issued by C. He may endorse this and give it to B and pay for his own debt in this way. The seller is not compelled to accept a promissory note. The business reputation of the buyer is of much importance to a man in deciding whether he will accept a promissory note from him or not, just as it is to a bank when the man wishes to get money from it. The written promise is better than a verbal one because it is easier to prove in court. The advantage of

SPECIMEN FORM OF NOTE.

$	Montana, ..., 19 .....
	..... after date, for value received, we jointly and severally promise to pay to the order of .....
When due	..... ***Dollars*** 100
	with interest thereon at ..... per cent. per month from date until paid, and with reasonable attorney's fees in addition to other court costs in case an action is instituted to enforce payment. Each of the makers hereof, and the endorsers hereon, waive demand, protest and notice of non-payment.
Number	Payable at office of ..... P. O. .....
.....	**The First National Bank** ..... P. O. .....
	Montana. ..... P. O. .....

promissory notes to a business man is that he can use them to pay his own debts or to get money from a note broker or at a bank. It also sets a specific date for payment; and dishonor of a note is more feared by the business man than mere slowness in payment of an open account.

ENDORSEMENT.—To endorse a note, which enables some other person to collect on it, the payee writes his name across the back of it. This makes the payee, like the maker, responsible for the payment of the note. The person to whom he has endorsed it may endorse it to some other person (unless the first endorsement was a special endorsement). All those who endorse a note are liable for the payment of it, except when the endorsement is qualified. Notes which have only one person responsible for their payment are called "single-name paper"; those having two or more responsible signers are called "double-name" or "three-name" paper. When the maker draws a note payable to himself, it is not complete until he has endorsed it. The rules regarding endorsement of notes are the same as for drafts, as previously explained.

NEGOTIATION.—The essential characteristic of promissory notes is the same as that of bills—the fact that they can be passed from one person to another. This negotiation is effected either (1) by merely handing it from one person to another when the note is made payable "to bearer" or where

the endorsement is "in blank," or (2) by endorsement. It will be remembered that a draft must have certain things present in order to be negotiable. The same things are necessary with promissory notes, viz: (1) It must be in writing and signed by the maker; (2) it must contain an unconditional promise to pay a definite sum in money; (3) it must be payable on demand, or at some fixed or determinable future time; (4) it must be payable to order or to bearer. A summary of the formal requisites of a note which make it negotiable would give us the following (from the Negotiable Instruments Law): "A negotiable promissory note is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand, or at a fixed or determinable future time, a sum certain in money to order, or to bearer." A note may be non-negotiable if the words "bearer" or "order" do not appear on its face.

MONEY—LEGAL TENDER.—Notes and bills must be paid in money; that is, in "legal tender." The efficient bank representative must know the rule concerning legal tender as applied to money in the United States. Let us consider, first, the reasons for such rules regarding legal tender; and, second, the rules as they now stand. Debtors who wish to liquidate their debts must know with what the debt may be paid and the debtors released. Since debts are usually drawn in terms of "dollars,"

it is of importance to know just what a dollar is when it comes to securing release from debt. For if it could be proved that the debtor had not offered "dollars," he would not be released from the obligation. To cover this situation, laws have been enacted stating what the courts shall recognize as legal "dollars" for debt payments. These laws enumerate the terms and kinds of money that may be tendered to pay a debt. These forms of money and this quality of certain kinds of money is known as legal tender. All other forms of money or of payment are not legal tender, though, indeed, they may be acceptable tender. It is of importance to know what forms of money are legal tender when the creditor for some reason does not wish to be paid the amount of the debt. An illustration of such a debtor might be one who had given a long term option on land that has unexpectedly and suddenly realized a great rise in value. The following are the various kinds of United States money and currency and their legal tender qualities:

1. Gold coin, legal tender to an unlimited amount and everywhere.

2. Silver dollars, legal tender to an unlimited amount and everywhere.

3. Treasury notes of 1890, legal tender to an unlimited amount and everywhere.

4. Subsidiary silver (halves, quarters and dimes), legal tender to the amount of $10 and everywhere.

5. Minor coins (nickels and cents), legal tender to the amount of twenty-five cents and everywhere.

6. United States notes, legal tender to an unlimited amount but not in payment of duties on imports or interest on the public debt.

7. Gold certificates, not legal tender but receivable for all public dues.

8. Silver certificates, not legal tender but receivable for all public dues.

9. National bank notes, not legal tender but receivable for all public dues except duties on imports. All National banks are required by law to receive the notes of other National banks at par.

10. Federal Reserve notes, not legal tender but receivable by all national and member banks and Federal Reserve Banks for taxes, customs and other public dues.

11. Federal Reserve Bank notes, not legal tender but receivable for all public dues except duties on imports.

JOINT MAKERS.—Suppose A purchases goods from B and wishes to give the latter his promissory note. B will not accept A's note unless A gets someone to sign with him to insure payment of the note when it becomes due. So A gets C to sign with him. Then A and C are "joint makers," and C is liable on the note if A refuses to pay it when it becomes due, whether he has been notified of A's failure to pay or not. This would be so even if he had signed his name on the

back of the note, where an endorser does, before delivery to the payee.

INTEREST.—Interest is compensation paid for the use of money—either money borrowed directly or on an account due or for other obligations. Notes are either interest bearing or non-interest bearing, as the notes provide. Interest is either "simple" or "compound." "Simple" interest is a sum paid for the use of the principal only. But sometimes the interest for a certain period is added to the principal and the interest for the next period is on this principal and interest added together; the interest on the total is "compound" interest. Suppose A loans B $1,000 on a promissory note due in two years, to draw interest at six per cent. Under simple interest A would get $1,120 at the maturity of the note. But suppose the note contained a provision that interest should be compounded. Then at the end of the first year the interest ($60) would be added and the new principal for the second year would be $1,060, so that when the note became due A would get $1,123.60. Unless specifically stated otherwise, interest is simple. If interest is not paid when due, interest on the unpaid interest cannot generally be collected. Banks usually collect interest in advance on their discounts of commercial paper.

DATE OF MATURITY. — Formerly three "days of grace" were allowed to all persons obliged to pay notes—that is, three days beyond the time

when one would expect them to become due. This has been abolished now in all or nearly all the States and an instrument matures on the date fixed. Bankers should become acquainted with the provisions of the law on this point in their own State. If a note is made payable a number of days after date, the day it was drawn is excluded in determining the due date of the note. If a note dated May 10th is payable thirty days after date, it is due June 9th. Suppose June 9th falls on a Sunday or a legal holiday, then the note is due on the next business day. If the note had been dated May 10th and made payable one month from date, it would have been payable June 10th. The presentment for payment must be made on the day the note is due and at a reasonable hour. If a note is issued reading "with interest," but without any provision as to the rate of interest, then the rate will be the legal rate provided by the State law. Students should learn the legal rate of the State in which their bank is located. If no part of the principal or interest of a note is paid within a certain time after maturity, it is said to be "outlawed" and cannot be collected. See the statute of limitations in your own State. In most jurisdictions, notes that are payable "on demand" do not draw interest before they are presented for payment (notes are not presented for "acceptance," as bills are) unless they contain an express provision providing for interest. However, after they have been

presented for payment they draw the legal rate until paid, even though it has not been mentioned in the note. In some jurisdictions, however, it has been held that an obligation to pay money on demand is payable immediately, and that interest is recoverable from its date. When bills or notes are payable on demand the payee or holder is entitled to payment upon delivery. But presentment must be made within a reasonable time after the note (or bill) is issued. The question as to what is a reasonable time is one which depends on the nature of the instrument, the usage of trade or business with respect to such instruments, and the facts of the particular case.

PLACE OF PAYMENT. — Presentment for payment must always be made at the place named in the note (the same rule applies to bills). Suppose the note reads "payable at the Italian-American Bank"—then it must be presented for payment at that bank. But suppose the note had simply said: "Payable in Chicago"—then the presentment must be at the maker's place of business or residence in Chicago. If he has neither a residence or place of business in Chicago, then the presence of the note (or bill) in Chicago in the hands of the holder or his agent authorized to collect, is the correct mode of presentment. The most convenient way of presenting a bill or note which is made payable in a city or town is to send it "for collection" to a bank of that place. If the draft or note is

payable at a bank, it is sufficient presentment if the paper is at the bank where it is payable when it becomes due and the bank knows that it is there. Many times, however, notes (and bills) do not specify a place of payment. Then it is payable at the maker's place of business or his residence (drawee's in case of a bill); when he has a known place of business that should be given preference over his residence, though the holder may present it at either one. He is not bound to present it at both the residence and place of business, even if he finds no one, at the place he chooses, to present it to. And if the maker has a residence or place of business, then a personal presentment to him—for instance, a presentment in a club or on the street—will not be sufficient. But it may happen that no place of payment is named and the maker has neither a place of business nor a residence. Then it will be a good presentment if the holder is present with the paper and ready to be paid at the place where the contract was made. The presentment will also be good if presented to the maker personally wherever he can be found, or if made at his last known residence or place of business. Presentment for payment is dispensed with when after the exercise of reasonable diligence it cannot be made. These rules apply also to bills of exchange. It is a matter of convenience, and something that will be appreciated, to send to the maker notice of the maturity of a note several days before it becomes

due. The maker may dispense with the making of any demand, or the giving of any notice, by putting the words "waiving demand and notice" in the note. Endorsers may do the same, as regards their own rights to notice. The same provisions as to "protest" and "notice" apply to promissory notes as apply to bills of exchange.

PARTIAL PAYMENTS. — The holder of an instrument has a right to payment in full when a note becomes due. But he may, if he wishes, let the maker pay in installments when he cannot pay the full amount. Care must be taken in such cases to compute exactly the amount due in principal and interest at every payment. Partial payments should be endorsed on the instrument in some such form as "Received on the within note $50 Jan. 7, 1916. (Signed) Henry J. Peters."

COLLATERAL WITH NOTES.—The maker of a note, in order to get money on it, often gives certain security which is known as "collateral" and is designed to insure the payee against the maker's inability to pay on maturity. Thus, A borrows $1,000 from B and gives B his promissory note for that amount. A also gives B (or puts in the hands of a third party) securities which shall be used to reimburse B if he, A, fails to pay the note when due. Suppose A fails to pay and the securities sell for $1,500. Then B will have to return to A $500 less interest on the note (if there is any). Thus giving collateral makes security more specific.

SIMPLE FORM OF COLLATERAL NOTE

$..... Philadelphia, Pa....., 191.....

..... after date ..... promise to

pay to the order of.....

..... Dollars,

without defalcation, for value received, having deposited herewith as collateral security

.....

.....

.....

which.....authorize the holder of this Note, upon the non-performance of this promise at maturity, to sell; either at the Broker's Board, or at public or private sale, without demanding payment of this Note, or the debt due thereon, and without further notice, and apply the proceeds, or as much thereof as may be necessary, to the payment of this Note, and all necessary expenses and charges, holding.....responsible for any deficiency.

Payable at FIRST NATIONAL BANK .....

COLLATERAL NOTE FORM.—The ordinary collateral note is, in form, the usual promissory note, with the rate of interest given, together with substantially the following language:

The undersigned has deposited with said bank as collateral security for the payment of this and any and every liability or liabilities of the undersigned to the said bank direct or contingent, due or to become due, or which may hereafter be contracted or existing, the following property (here the specific collateral is described), together with all other securities in the possession of said bank belonging to the undersigned or in which the undersigned has an interest; hereby agreeing to deliver to said bank additional securities to its satisfaction, upon demand of said bank, also hereby giving to said bank a lien for the amount of all said liabilities of the undersigned to said bank upon all property or securities which now are or may hereafter be pledged as collateral with said bank by the undersigned, or in the possession of said bank in which the undersigned has any interest, and, also upon any balance of the deposit account of the undersigned with said bank. On the non-performance of this promise, or upon the non-payment of any liabilities above mentioned, or upon the failure of the undersigned forthwith to furnish satisfactory additional securities on demand, at the option of said bank, this obligation shall become immediately due and payable, and then and in every such case full power and authority are hereby given to said bank to sell, assign and deliver the whole of said securities or any part thereof or any substitutes therefor or any additions thereto through any stock exchange or broker or at private sale, without either advertisement or notice, the same being hereby expressly waived or said bank, at its option, may sell the whole or any part of said securities or property at public sale upon five days'

notice published in any newspaper printed in the city of , at which public sale said bank itself may purchase the same or any part thereof free from any right of redemption on the part of the undersigned, which is hereby expressly waived and released. In case of sale for any cause, after deducting all costs and expenses of every kind, said bank may apply the residue of the proceeds of such sale, as it shall deem proper, toward the payment of any one or more or all of the liabilities of the undersigned to said bank, whether due or not due, returning the overplus, if any, to the undersigned, who agree to be and remain liable to said bank for any and every deficiency after application as aforesaid, upon this and all other of said liabilities; the undersigned hereby authorizing the transfer or assignment of said securities and property to the purchaser thereof.

And I hereby authorize any attorney-at-law to appear in any court of record in the United States, after the above obligation becomes due and waive the issuing and service of process and confess a judgment against me in favor of THE FIRST NATIONAL BANK OF..... or any holder of this note, for the amount then appearing due together with the costs of suit, and thereupon to release all errors and waive all right of appeal and stay of execution.

COLLATERAL NOTE WITH WAIVER OF RIGHTS.—The form of this note is the same as a promissory note, with substantially the following language added:

The undersigned having deposited as collateral security for the payment of this and any other liability of the undersigned to the holder hereof, due or to become due or that may be hereafter contracted, the following property, to wit: (here follows a description of the collateral) the market value of which is now..... dollars, with authority to sell, transfer or re-hypothecate said collateral, it being under-

stood that on payment or tender of the amount so due, the holder hereof may return to the undersigned an equal quantity of said securities instead of the securities deposited; with the further right to the holder to call for additional security in case there should be a decline in the market value of the securities deposited herewith, and upon the failure of the undersigned to comply with said demand and to deposit with the holder hereof additional security to be approved by said holder sufficient to cover said decline, this note shall become instantly due and payable as though it had actually matured, and all the rights hereby conferred to dispose of said collateral shall at once be exercisable at the risk of the undersigned in case of any deficiency in realizing proceeds.

Full power and authority are hereby given the holder hereof to sell, assign and deliver the whole of the above-mentioned securities or any part thereof or any substitutes therefor or any additions thereto at the Broker's Board or at public or private sale, at the option of said holder or his assigns, on the non-performance of this promise or the non-payment of any of the liabilities above mentioned or at any time or times thereafter, without demand, advertisement or notice, and after deducting all legal or other costs and expenses of collection, sale and delivery, to apply the residue of the proceeds of such sale or sales so made to the payment of any or all of the liabilities above mentioned, as said holder or his assigns shall deem proper, returning the overplus to the undersigned. It is also understood that upon any sales of any of said collateral securities, said holder may become the purchaser thereof absolutely free from any claim of the undersigned. The makers and endorsers hereof hereby waive the benefit of their Homestead exemption as to this debt and do further waive demand, presentment, protest and notice of dishonor.

The collateral deposited must be salable property, the value of the property, rather than the

COLLATERAL AGREEMENT.

No.....

NATIONAL BANK

United States Depositary

Boise, Idaho.....

Agreement Upon Deposit of Collateral

The undersigned ha.....this day deposited with the.....NATIONAL BANK, the following securities:

to be held by said bank, its successors or assigns, as collateral for any and all checks, drafts, notes, endorsements or overdrafts made, or discounts obtained, or other indebtedness incurred by the undersigned or.....legal representatives or assigns, due, or to become due, to said Bank. Said Bank is authorized to sell or dispose of the same at public or private sale without notice, should any part of said indebtedness not be paid when due, and, if at public sale, to become the purchaser thereof.

Witness: .....

....

....

RECEIPT FOR COLLATERAL

No.....

NATIONAL BANK
United States Depositary

Boise, Idaho.....

Receipt for Collateral

THE.....NATIONAL BANK
has this day received of.....
the following securities:

to be held by said bank, its successors or assigns, as collateral for any and all checks, drafts, notes, endorsements or overdrafts made, or discounts obtained, or other indebtedness incurred by the said ..... or .....
legal representatives or assigns, due, or to become due, to said Bank. Said Bank is authorized to sell or dispose of the same at public or private sale without notice, should any part of said indebtedness not be paid when due, and, if at public sale, to become the purchaser thereof.

NATIONAL BANK,

By.....Cashier.

RECORD OF COLLATERAL

No

NATIONAL BANK
United States Depositary

Boise, Idaho.....

Record of Collateral

Security for indebtedness of.....
.....consisting of the following securities:

Agreement signed by: .....
.....
Receipt given: .....
Remarks: .....
.....
Date released: .....
Receipt taken up: .....
To whom and how delivered: .....
Remarks: .....
.....

credit of the borrower, providing the security for the payment of the money. Such loans may be made payable "on time," or "on call." In the latter form they are payable at the will of the borrower and callable at the will of the bank. "Call loans" are made at low rates of interest since they provide a bank with a very liquid (easily converted into money) asset.

CHATTEL MORTGAGES.—A chattel mortgage is an instrument in writing which states that the mortgagor (the person borrowing the money) has sold to the mortgagee (the person loaning the money) certain specified articles of personal property. The list of articles is described in full either in the body of the chattel mortgage itself or in an accompanying schedule. There is always a condition clause included, which usually reads:

Provided Always, and these presents are upon this express condition, that if said party of the first part shall pay or cause to be paid unto the said party of the second part, or to its assigns (if it is a bank), the aforesaid sum of .....dollars, according to the terms of his certain promissory note of even date herewith, and payable at the.....Bank, with interest thereon at the rate of.....per cent. per annum from maturity and which note the said party of the first part hereby agrees to pay, then these presents and everything therein contained shall be void, anything herein contained to the contrary notwithstanding. And it is hereby mutually covenanted and agreed between the parties hereto that if default be made in payment of said sum of money or any part thereof, or the interest thereon according to the tenor and effect

of said note when the same becomes due and payable, or upon failure to conform to or comply with any of the conditions or agreements herein mentioned, then the whole sum of money hereby secured, shall at the option of the legal holder or holders hereof become due and payable at once without notice. And it is further agreed that in case of sale or disposal, or attempt to sell or dispose of the goods and chattels here mortgaged, or removal of or attempt to remove the same from the county aforesaid, or an unreasonable depreciation in value, or if from any cause the security shall become inadequate, or the party of the second part shall deem itself insecure, then and thenceforth it shall be lawful for the said party of the second part, or its assigns, or its authorized agent, to enter upon the premises of the said party of the first part, or any other place or places wherein said goods and chattels aforesaid may be, to remove and dispose of the same and all the equity of redemption of the said party of the first part, at public auction or private sale, to the person or persons who shall offer the highest price for same, and out of the avails thereof to retain the full amount of said obligation with the interest thereon, according to the conditions thereof, together with all reasonable cost and expense attending the same, rendering to said party of the first part or his legal representatives, the surplus money (if any there shall be), anything herein to the contrary notwithstanding. And until default be made as aforesaid, or until such time as the said party of the second part shall deem itself insecure as aforesaid, the said party of the first part to continue in the peaceable possession of all the said goods and chattels all of which in consideration thereof, he engages, shall be kept in as good condition as the same now is, and taken care of at his expense, and if from any cause said property shall fail to satisfy said debt and interest aforesaid, said party of the first part hereby agrees to pay the deficiency.

A short affidavit of ownership is sometimes included, which states that the mortgagor is the lawful owner of the personal property described, and that there are no liens upon said property. The chattel mortgage is dated, signed by the mortgagor, his signature being witnessed (some jurisdictions require one witness, others require two), and he acknowledges his signature before a notary public or other officer authorized and empowered to take acknowledgments. The chattel mortgage should be recorded in the office where deeds are recorded.

CHATTEL MORTGAGES ON CATTLE.—A chattel mortgage on cattle states that the mortgagor, for the purpose of securing payment of his certain promissory note payable to the ..... Bank, (giving date, amount and due date of note), with interest from maturity at.....per cent. per annum until paid, sells and conveys to the bank certain described personal property owned by him. The cattle pledged is described by number, age, color, weight, name, marks or brands, from whom obtained and value. These mortgages usually include the crops planted on the land owned by the mortgagor. The following condition clause is included:

PROVIDED, HOWEVER, If I shall pay such debt and interest, then this mortgage shall be void; but, if default be made in the payment of said debt, according to the conditions of said note, or if during the lien of this mortgage I attempt to sell, remove or otherwise dispose of said mortgaged property, or any part thereof, or if I shall abuse

DAILY STATEMENT OF LOANS AND DISCOUNTS

Loans and Discounts ..... **19** .....

	Maker	Endorser and Collateral	Amount	Remarks	

or misuse said mortgaged property, or any part thereof, or shall fail to take reasonable or proper care thereof, whereby the same or any part thereof shall become depreciated in condition or value, or if said property or any part thereof shall be seized under a writ of attachment by virtue of an execution against me; or if at any time the said mortgagee shall, with reasonable cause, deem itself insecure, then and thereupon the said mortgagee or its agent, is hereby authorized to declare the whole debt due, and to enter upon the premises whereon said property, or any part thereof, may be, and take, remove and sell the same in the manner provided by law, and out of the proceeds the said mortgagee is herein and hereby authorized and empowered to retain such amount as shall be sufficient to satisfy the said entire indebtedness hereby secured, with interest thereon to the time of such sale. $10.00 attorney's fees, and such expenses as shall have been necessarily incurred in the seizure, keeping and sale of such property, returning to me or my representative any surplus derived from the said sale of the said property after having satisfied the several amounts aforesaid; and it is agreed that the said mortgagee retains in force all mortgages heretofore given securing the same or any part of the indebtedness hereby secured.

These mortgages should be signed and executed in the manner described in the preceding paragraph.

HANDLING COLLATERAL LOANS.—The rate on call loans in New York City ranges ordinarily from 1% upward, depending upon the amount of money held by the banks and their willingness to accept offered collateral. "Collateral loans" differ from "discounts" in that the full amount of the note is generally advanced, interest being paid at maturity or on call; and little de-

pendence is placed on personal credit ratings. They are quite alike in the methods followed for making, recording and collecting the loan, as explained elsewhere. It is the duty of the holder of collateral to protect it. A bank must exercise ordinary care and diligence in keeping bonds deposited as collateral. Reasonable diligence is required when notes are held, to protect them from becoming outlawed. After the loan is approved, the securities are verified and listed, and the details of the loan are entered upon the register and also upon the collateral ledger (according to owners). After the borrower receives the proceeds of the loan, the collateral is filed away in envelopes arranged alphabetically according to owners. This permits ready comparison with the collateral ledger, which is of the loose-leaf variety. The person that is responsible for watching the collateral loans in order to avoid depreciation in the collateral deposited, must keep informed upon values of collateral and also have the bank's holdings of each kind of collateral recorded in a form convenient for ready reference and location of owners, in order that they may be notified to strengthen their accounts by a part payment or by an addition to the collateral deposited. Substitutions of collateral are always permitted if the newer securities are acceptable. Part payments and partial release of securities are very common.

LOSS OF NOTES.—If a note is lost or stolen

the maker must still pay when it becomes due. A person buying a lost or stolen note has a right to collect on it if he is an "innocent purchaser." The purchaser must not be aware that the note had been lost or stolen and really belonged to someone else. If A gives his note to B and the note is lost by B or stolen from B, then A must pay B if the latter gives him what is known as a "bond of indemnity"—an instrument which states that if the paper turns up later and A is required to pay on it, then B will return the money he has received.

ACCOMMODATION NOTES. — An accommodation note is one which is signed as maker or endorser by some party who has received nothing for signing his name to it. He lends his name to the maker to enable the latter to get his consideration (since bills and notes are contracts they are governed by the same rules of contracts elsewhere discussed) from the payee. It is a benefit to the payee because he can more easily transfer it to some other party by endorsement and secure money on it. Since the accommodation maker has received nothing for his signature the payee can not make him pay as a "maker," even though his name is on the note as such. But if a holder for value (one who has in good faith paid something valuable for the note) gets the note he can make the accommodation party pay him, even if when he took the instrument he knew him to be only an accommodation party. A wishes to borrow $1,000 at the bank.

DAILY DISCOUNT BOOK

NO.	DATE OF DISCOUNT	PROMISOR OR DRAWER	DRAWEE OR ACCEPTOR	ENDORSER OR SURETY
				(Book Bound Here)
LEFT HAND PAGE				

FIRST NATIONAL BANK

(Book Bound Here) WHEN DUE	WHERE PAYABLE	DATE OF PAPER	DISCOUNT TIME Month	Day	AMOUNT Dolls.	Cts.	DISCOUNT Dolls.	Cts.	AMOUNT Dolls.	Cts.	FOR WHOM DISCOUNTED
RIGHT HAND PAGE											

He asks B to lend him his credit. So A makes a promissory note payable to B, who endorses it in blank. A then takes the note and discounts it at the bank. Or suppose A had been the ordinary payee but the bank would not take the note on A's and B's credit. Then A may get C to endorse it in blank and then A will take it to the bank and discount it. C is the accommodation endorser for A, the payee. If C's signature appears before that of A he is termed an "irregular endorser." Having signed for the accommodation of the payee, he is liable to all parties after the payee. For illustration: A made a note to his own order and endorsed it for the accommodation of B, who then endorsed it and negotiated it to P. At maturity the note was not paid and A is sued for the amount. He will be liable, and will not be permitted to show the existence of an oral agreement with B that B alone was to be liable on the note. In short, accommodation parties are liable to holders for value of the notes they sign, but are not liable to the party for whose accommodation they sign.

BANK DISCOUNT. — Suppose A wishes to borrow $1,000 from his bank. He gives his promissory note for the amount, due in sixty days. Instead of collecting interest when the note becomes due the bank will deduct the interest in advance. Suppose the interest to be 6%; the bank will pay him $990. In this way the bank is really getting more than it would by taking the 6% when the

SPECIMEN DISCOUNT REGISTER.

| | | |

note becomes due, for then it would be getting 6% on $1,000; since A must pay $1,000, the bank is really getting interest for sixty days on $990—or 6.165%. Similarly, A might discount a note of C's which he had in his possession. Bank discount (the sum the bank gets) is not usury, even if the bank gets slightly more than the legal rate of interest. A "discount" is really a loan in which the interest is paid in advance instead of at maturity. The "discount" is also the amount deducted from the face of the note. "Discounting" is the process of securing money on commercial paper (bills as well as notes) by paying interest in advance.

DISCOUNT RECORDS.—The discount clerk records the note or notes in a "Discount Register" by consecutive numbers under the date when discounted, with all details as to endorsements, interest, amount and maturity. He then enters the notes in a "Tickler" or "Maturity Calendar" under their due dates, with a complete description. This is designed to avoid errors in presentation, since proper presentation on the due date is necessary in order to hold endorsers liable. The notes are then filed away in wallets, either according to number or according to due dates; usually the latter. That system is best which provides quickest access to any note that is wanted. The transcript of the day's discount record is sent to the credit department for its information. The total of bills dis-

counted, together with a record of any other transactions conducted by the discount teller, is sent to the general bookkeeper. Due notes are paid through a note teller, or the collection department, or the discount department, according to the plan of the bank's organization. To use a separate note teller is especially to be desired when there is a large volume of general collection business, and, incidentally, it separates the handling of cash from the keeping of discount records. Some of the factors that determine whether the bank will grant a discount are (1) the condition of the bank's funds; (2) the claim of the applicant to accommodation; (3) the credit of the applicant; (4) the rate of discount on the loan.

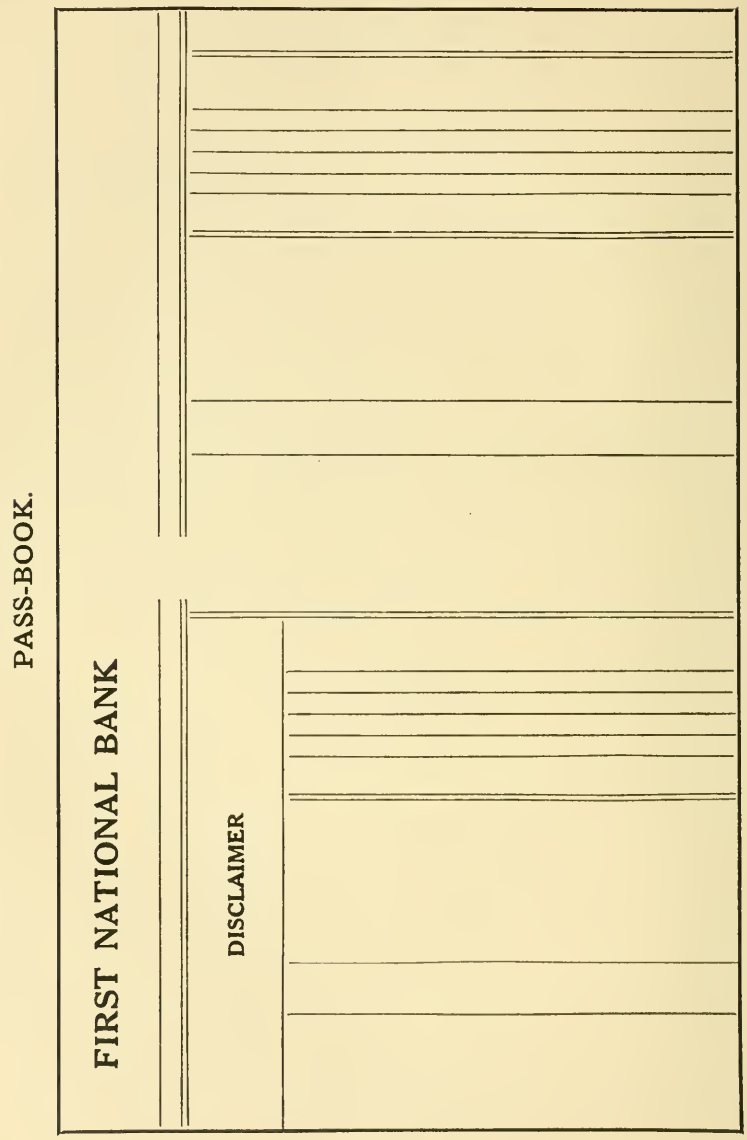
CHAPTER V

Deposits and Checks

WHAT IS A DEPOSIT?—A "deposit" is the right to receive money from a bank. Or it is the obligation of a bank to pay money.

DEPOSIT BOOKS AND DUPLICATE SLIPS.—When a customer opens an account with a bank he is given a deposit book, known also as a "pass book" or "bank book." This book contains the bank's account with the customer. Every time he makes a deposit (by putting in cash or discounting or in any other way) the total is entered on the debit side of the pass book, since they are debits of the bank. (The debit side is usually made the left hand page in the pass book). The pass book is the depositor's evidence of deposit.

DEPOSIT TICKETS.—Deposit tickets are the slips depositors are required to make out showing the respective amounts of cash, notes, checks, etc., that are deposited. They should always be made out by the depositor, and never, except in unusual cases, such as inability, by bank officials. They are kept by the banks and, if any dispute arises as to how much was deposited, these slips, in the handwriting of the depositor, are of great value. Banks frequently print in the pass books notice of the terms on which deposits are received and the same terms should also be placed on the deposit slips.


PASS-BOOK.
FIRST NATIONAL BANK
DISCLAIMER

This statement usually is merely a disclaimer of liability on items deposited that are payable by other banks. This is done to notify the depositor that while the bank has acknowledged its indebtedness to him, that this is subject to the qualification that all checks, notes and drafts presented are sub-

DEPOSIT TICKET WITH DISCLAIMER FOR COLLECTIONS.

FOR DEPOSIT BY

.....

—WITH—

National Bank,

RICHMOND, VA., 19

The depositor using this ticket hereby agrees that all items payable outside of Richmond shall be forwarded by this bank as agent for the depositor at the depositor's risk; that this bank shall not be responsible for negligence, default or failure of sub-agents, nor for losses in the mails; that this bank shall have the right to charge back to the depositor's account any item for which actual payment is not received; that items may be sent direct to the banks on which drawn without waiving any of the above conditions, and that items on Richmond are credited subject to actual payment through the Richmond Clearing House.

	Dollars	Cents
CURRENCY.....		
COIN.....		
CHECK AND DRAFTS.		

ject to the bank's ability to collect on them. For instance, A deposits B's check for $500 with the bank. The bank enters A as having made a $500 deposit. But if the bank is unable to collect the check it will not be liable to A for the $500 with which it has credited him. In order that the bank's

DEPOSIT TICKET, SIMPLE FORM.

NATIONAL BANK
OF PITTSBURGH.
DEPOSIT MADE BY

_____

_____

_____ 19____

	Dollars	Cents
CURRENCY		
SILVER		
GOLD		
CHECKS AS FOLLOWS In Pittsburgh, name the Bank; out of town, name the place		

SIGNATURE CARD FOR INDIVIDUALS.

AUTHORIZED SIGNATURE OF INDIVIDUAL

.....

For the FIRST NATIONAL BANK OF STATETOWN

Sign Here .....

.....

.....

.....

Address .....

Business .....

Introduced by Accepted by .....

Date 191 Remarks .....

face

To the FIRST NATIONAL BANK OF STATETOWN:

Until you are further notified by the undersigned, in writing, you are hereby authorized, empowered and directed to honor and pay all checks drawn on you and signed by.....whose signature appears below (who is fully authorized to represent and act for the undersigned in all dealings with your Bank) and charge such checks to the account of the undersigned.

.....

Signature of person authorized to sign checks:.....

I hereby certify the foregoing is the signature of

.....

Dated, this.....day of.....A. D. 191...

.....

back

SIGNATURE CARD FOR PARTNERSHIPS.

AUTHORIZED SIGNATURES OF PARTNERSHIP

.....

For the FIRST NATIONAL BANK OF STATETOWN

Countersigned by

Mr. ..... will sign .....

Mr. ..... will sign .....

Mr. ..... will sign .....

Mr. ..... will sign .....

.....

.....

.....

Date.....191 ○ face

○

Name .....

Address .....

Business .....

Introduction .....

Came from .....

Other Bank Accounts .....

Remarks .....

Account accepted by .....

back

SIGNATURE CARD FOR CORPORATIONS.

AUTHORIZED SIGNATURES OF CORPORATION

For the FIRST NATIONAL BANK OF STATETOWN

President

Vice-President

Vice-President

Secretary

Treasurer

Countersigned by

Date.....191 ○ face

○

Name

Address

Business

Introduction

Came from

Other Bank Accounts

Remarks

Account accepted by

back

SPECIMEN DUPLICATE DEPOSIT TICKETS.

DEPOSITED BY

.....

in

The National Bank of New York.

Temporary receipt for deposit, issued pending entry in Pass Book.

Depositors will please compare above amounts with entries in Pass Book when balanced.

DUPLICATE DEPOSIT TICKET

CLEVELAND, OHIO _____ 19___

_____ HAS DEPOSITED $ _____ TO

THE CREDIT OF _____

_____ TELLER.

SIGNATURE CARD FOR ONE BANK MAKING A DEPOSIT IN ANOTHER.

AUTHORIZED SIGNATURE OF

.....

For the FIRST NATIONAL BANK OF STATETOWN

Below find the .....(NUMBER) authorized signatures which you will please recognize in the payment of funds or the transaction of other business on account of this Bank. Yours respectfully,

Date _____ Cashier

President

Vice-President

Cashier

Assistant Cashier

Date.....191 face

Capital

Surplus

Undivided Profits

back

position may be clear, such legal notice to depositors should be given of the terms on which deposits are received.

STATEMENT OF ACCOUNT.

IN ACCOUNT WITH STATE BANK, MONTANA

Please examine and report on this account as soon as convenient

DEBITS			CREDITS	
		CHECKS PAID	Balance	
			DEPOSITS	
			Total Credits	
			Total Debits	
Vouchers	retur	ned as per above list	Balance.	

Failure to report errors prior to the 20th of the month next after the receipt of this statement will be considered evidence of the correctness of your account.

DUPLICATE DEPOSIT TICKETS.—Sometimes, especially when the amounts are small and the deposit is expected to be comparatively short-lived, instead of giving the depositor a pass book the bank may give him a duplicate slip for each deposit ticket he makes out—that is, each deposit will be entered on a slip which is handed to the depositor and serves, instead of the pass book, as the depositor's evidence of the deposit. Likewise, the duplicate deposit ticket is of great convenience when the depositor forgets to bring his pass book. Banks that do not have a special printed duplicate slip may use a rubber stamp on the regular slips to acknowledge deposits.

STATEMENTS OF ACCOUNT. — This is a duplicate of the ledger account prepared daily and completed on the last day of the month. The depositor is expected to call for this on or after the first of the month. If he does not do so it may be mailed to him. It lists the amounts deposited and the checks drawn by the depositor which the bank has paid during the month, and then shows how much of a balance the depositor has—that is, for how much he may still draw on the bank. Bankers usually require the depositor to acknowledge, by his signature, that he has received the statement, and there is also usually a stipulation that if it is not objected to within a certain number of days the account will be considered correct. Some banks do not use the monthly statement of account. With

such banks the customer must present his pass book to be "written up," showing checks paid and balance forwarded. It is often necessary under this system to notify and urge customers to bring in their books.

FORM OF RECEIPT FOR STATEMENT OF ACCOUNT.

.....

Received of THE FIRST NATIONAL BANK OF STATETOWN, Statement of my account to .....191 with.....Vouchers showing Credit Balance of $..... I hereby agree to examine same carefully, and if not correct give notice to an officer of said bank and make all reclamations within ten days.

.....

Statetown 191

Please sign this voucher receipt and return same to us.

RECEIVING TELLER AND DEPOSITORS. — In small banks where the amount of business done does not justify a separate note teller and collection clerk, the receiving teller receives and accounts for all the funds that come into the bank. In large city banks the receiving teller's main duty is to receive the deposits that come in directly over the counter. His work divides itself

into two chief functions: (1) He must prove the deposit tickets and receipts for items so received; (2) he must sort the checks and currency into groups before turning them over to the other departments of the bank. The receiving teller must be able rapidly to compare the amounts entered on the deposit slip with what is handed to him. He should also be sure that the pass book presented belongs to the person whose name is on the deposit slip—if the right name is not on the ticket trouble and confusion may result, for then the ledger account and the pass book would not tally. The ledger account would show a certain sum deposited by A, while the pass book of B would contain an entry of that sum. When checks of corporations are presented the receiving teller should see that all checks are endorsed by the corporations, and not by the officers as such. Thus, "The A. B. Company, by Robert Jones, Treas.," is a proper endorsement, while "Robert Jones, Treas.," would not be. Suppose A, the treasurer of a corporation, presents a check payable to himself and signed by himself as treasurer, which he wishes to have credited to his personal account. A check so drawn puts a bank upon its inquiry. It has been held in some jurisdictions that a bank is liable for accepting a check of this kind, for the reason that the check appears irregular on its face. Unless the signature of an additional officer appears on such a check, the bank should satisfy itself that the check is an

authorized disbursement of the corporation before crediting it. Finally, deposit tickets are filed on spindles and sent to the bookkeeper's desk to be entered in the proper ledger accounts.

NOTE TELLER.—The note teller also receives and accounts for certain funds for the bank. The proceeds of city collections usually come into the hands of the note teller. (City collections are checks and sight drafts drawn on business firms and on banks not members of the clearing house. They are collected by messengers of the banks receiving them). He may also, in some banks, receive the money and checks that come through the mail. All payments made on notes discounted or purchased by the bank, or deposited for collection by customers, are made to the note teller unless the bank assigns this duty to the discount department. Many of the larger banks have adopted the "unit system" of combined receiving and paying tellers, subdividing the customers alphabetically, in order to provide for the better personal acquaintance and supervision that comes with such concentration of dealings.

DIFFERENT KINDS OF DEPOSITS.—Deposits are either "special" or "general." A "special" deposit is created whenever a particular thing is delivered to a bank to be returned upon demand—money, bonds and jewels are examples. They are given to the bank for safe keeping. The bank may or may not receive any compensation for taking

care of the valuables deposited with them, but whether it does or not it must take reasonable care of them, and will be liable for loss resulting from its negligence. "General" deposits are ones which are to be repaid on demand in money, and the title to the money deposited passes to the bank. A deposits $1,000 cash with the bank. He has a right to get $1,000 in return, but not the same coin or currency. In the case of general deposits the relation of banker and depositor is that of debtor and creditor. General deposits must be made with money or the rights to money; and when repaid they may be paid in any form of legal tender money. Such general deposits may be repaid in part or in full according to the wishes of the depositor. Deposits may be either "demand" or "time." "Demand" deposits, as the term indicates, may be withdrawn in whole or in part at any time. "Time" deposits, however, may not be withdrawn within a certain specified period. Section nineteen of the Federal Reserve Act provides that "Demand deposits, within the meaning of this Act, shall comprise all deposits payable after thirty days." "Savings" accounts, according to the Federal System, include those in respect to which the following conditions are accepted by the depositor at the time the account is opened: (a) The pass book, certificate, or other form of receipt, must be presented to the bank whenever a deposit or withdrawal is made; (b) the depositor may at any time

be required by the bank to give notice of an intended withdrawal not less than thirty days before a withdrawal is made. Savings banks differ in many respects from commercial banks which deal in checking accounts. Very often the same bank has both commercial and savings departments. Deposits are also classified as "individual," "bank" or "government." "Individual" deposits are rights to draw on the bank for funds, by an individual, firm or corporation, either on demand or upon notice given a certain number of days in advance. "Bank" deposits are obligations of one bank to another bank or other banks, and are often entered on a bank's books as "Due other banks," but this may be divided, in a more detailed statement, into "due National banks," "due State banks," "due trust companies and savings banks." "Government" deposits are merely funds owing to the government.

JOINT AND ALTERNATE DEPOSITS. — Another classification of deposits is into "joint" and "alternate." Deposits made in two names connected by the word "and" are called "joint deposits"; those connected by the word "or" are called "alternate deposits." The making of such a deposit may be construed either as establishing (a) a gift, (b) a trust, or (c) joint tenancy, whereby the whole belongs to the survivor. The intention of the depositor determines which one rules. Such deposits are made to secure (1) convenience in drawing funds, or (2) to make gifts becoming ef-

fective after death and avoiding administratorship. If the intention is that the account shall be a gift, it is not valid unless the pass book is delivered during the life-time of the donor. In some States, banks are authorized to pay such accounts to either of the persons "or to a survivor of them, or to a personal representative of such survivor." Bankers should be familiar with the law in their respective States.

ACKNOWLEDGMENT OF JOINT DEPOSIT.

No.....

To NATIONAL BANK.

The Deposits now or hereafter made to the account of the undersigned, whether made by them jointly or severally, are hereby declared to be their joint property, payable to either of them during their joint lives and to the survivor on the death of the other.

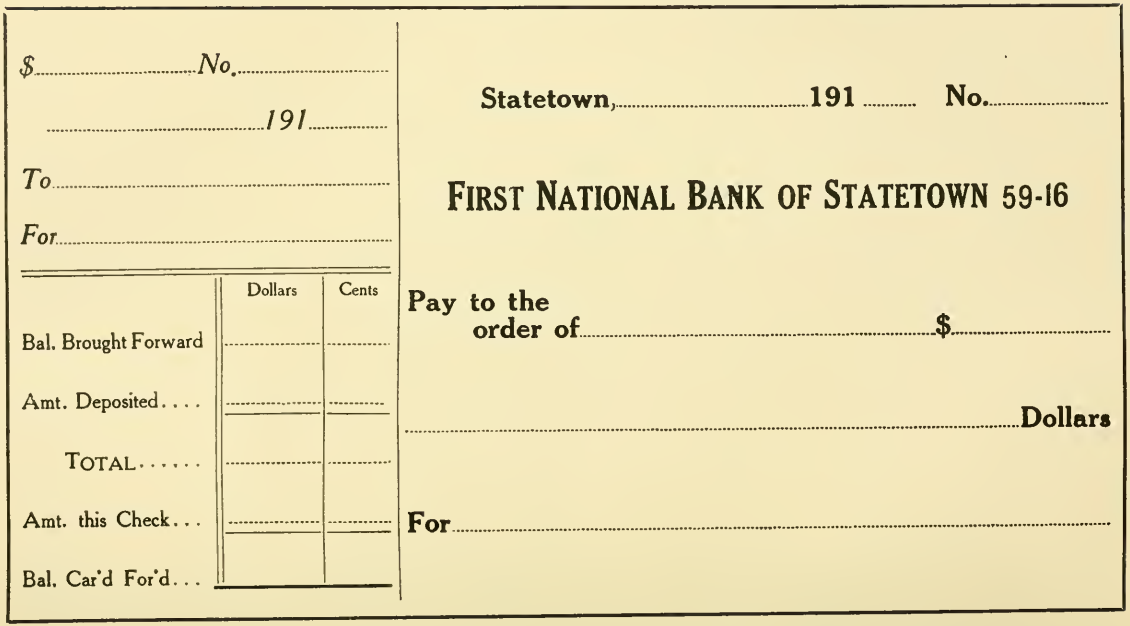
Milwaukee, Wis....., 191.....

In Presence of:

....

....

CHECK FORM, SHOWING STUB IN CHECK BOOK.



$..... No.....

.....191.....

To.....

For.....

	Dollars	Cents
Bal. Brought Forward		
Amt. Deposited....		
TOTAL.....		
Amt. this Check...		
Bal. Car'd For'd...		

Statetown,.....191..... No.....

FIRST NATIONAL BANK OF STATETOWN 59-16

Pay to the order of.....$.....

.....Dollars

For.....

TRUST DEPOSITS. — Deposits made "in the name of one person, as trustee for another" are known as "trust deposits." This form of deposit is sometimes made in order to (1) arrange for the disposition of an estate after death without the use of a will or administration, (2) conceal from others information of financial status, or (3) increase deposits where a limit is set upon individual deposits. The mere deposit in this form does not create a trust, but in most States such a deposit is presumed to belong to the "cestui que trust" (the person for whom the account is in trust); but this presumption may be overcome by evidence showing that the money was that of the depositor, who had no intention of giving it to the person named as the cestui que trust. However, this general rule is not uniform in all the States.

WHAT IS A CHECK?—A check is a written order on a bank for money by somebody who has a deposit there. As in a bill, the parties to a check are the drawer, the drawee, and the payee. But, unlike a bill, there does not have to be an acceptance. Checks are usually made payable to someone's "order," and must then be endorsed by the payee before they can be cashed or further negotiated.

CHECK BOOKS AND VOUCHER CHECKS. —The check book is simply a book of blank checks given to the depositor which he may use to draw on his deposit when he pleases. Most check books

COUNTER CHECK, FURNISHED BY THE BANK, TO BE USED ONLY IN THE BANK ITSELF.

FOR COUNTER USE ONLY
NOT NEGOTIABLE
(These Words Printed in Red Ink)

Statetown..... 191.....

RECEIVED IN PERSON FROM

First National Bank of Statetown

TO BE CHARGED TO MY ACCOUNT

.....Dollars, $.....

.....

are so arranged that the checks may be torn out and a stub left in the book, which serves as a reference to the depositor and has spaces in which he may enter the name of the person to whom the check was given, the amount, the number, the purpose of the check, the amount left in the bank, and amounts deposited. The owner of the check book is not required to fill these out, but it is an easy and wise thing to do. It is particularly important for the depositor to make a memorandum of the description of every check he deposits, in order to facilitate tracing and identification if it should be necessary later to do so.

COUNTER CHECKS. — In order to prevent forgers and swindlers from receiving the regular checks of the bank the "counter check" has been devised. These may safely be left open to the public because they are cashable only at the bank's counter and by the drawer in person.

VOUCHER CHECKS. — Voucher checks are checks that include a statement of the goods ordered or expense incurred by the drawers. Many companies issue such voucher checks in order to secure indisputable proof of the payment of the items described in detail by the voucher part of the check. They will be slightly different in form for different businesses, but they should always be made in negotiable form and in the form of a straight draft or check, with the endorsement of the payee to be accepted as sufficient receipt.

FORM FOR CHECKS ON OTHER BANKS (BANK DRAFTS).

STATETOWN,_____ 19__ No._____

First National Bank of Statetown

59-16

PAY TO THE ORDER OF_____ $_____

_____ DOLLARS

To the
CLEARING HOUSE BANK
New York

1-20

_____
CASHIER

PROPER DRAWING OF CHECKS.—There are certain simple rules which, if observed in drawing checks, will greatly lessen the danger of fraud, particularly in the raising of checks. The writing in the body of the check should exactly agree with the figures used to indicate the amount for which the check is drawn. The paying teller must be able to tell that the signature on the check is not a forgery and that the amount for which it was drawn has not been raised. Signatures of customers doing an active and regular business are easily remembered. Reference to signature files is generally necessary only in the cases of infrequent depositors and checks of corporations where only specified officials are authorized to sign. If the paying teller pays a forged check then the bank is liable. If he pays a raised check the bank is liable for all over the original amount the check was drawn for. It is sometimes very difficult to determine whether a check has been tampered with. Sometimes checks are so very carelessly drawn that it is a simple matter to change them. In some jurisdictions depositors are liable where they draw checks carelessly and make fraud easy, but such carelessness or fraud must be clearly proved, as the courts are generally inclined to favor depositors rather than banks. The use of safety paper (a paper with a thin coating on it that prevents any erasure without becoming noticeable) is becoming more common. Checks written in pencil are not prohib-

FORM FOR VOUCHER CHECK.

VOUCHER NO._____

Approved

_____

Chairman

_____ Committee

Countersigned and Approved

_____

Secretary

_____

Pres., First Vice Pres., Chairman Exec. Council

ITEMS

_____

_____

_____

NEW YORK_____ 19__ NO._____

TREASURER

THE AMERICAN BANKERS ASSOCIATION

PAY TO THE ORDER OF_____

_____ DOLLARS $_____

In full payment of Voucher No._____

THE AMERICAN BANKERS ASSOCIATION

PAYABLE AT

AMERICAN BANKERS BANK

1-150 NEW YORK

_____

SECRETARY

ited, but there is much danger in using pencil, as the writing may be easily altered. Bankers should take care to have their checks printed in such a way that the possibility of fraud will be lessened. They should also inform the customer as to the best way of writing checks. Good ink and plenty of it should

AN INCORRECTLY DRAWN CHECK

Minneapolis, Minn. Jan. 14, 1912 No. 21

THE DEPOSIT BANK 17-81

Pay to the order of T. L. Wright $10

Ten Dollars.

JOHN SMITH.

CHECK CORRECTLY DRAWN.

No. 3675 Statewood, Indiana, Dec. 17, 1917.

THE STATEWOOD BANK 17-81

Pay to Thomas R. Rice——————or order

Twenty-five and No./100——————Dollars

$25.00 JOHN T. SMITH.

be used. It will pay the bank to furnish safety paper, even though it does cost a little more. The figures should be written close up to the dollar sign ($) and should be made strong and prominent, and the "No/100" should be made in such a way that there will be no room left for other ciphers. All spaces should be filled with a clear, wavy line. Care should be taken in issuing checks to strangers. Checks for small sums are sometimes obtained from banks for the purpose of raising the amount. Protective devices, a number of which are now sold, should be used if possible. The stub should be filled out first; otherwise it might be forgotten and the maker or drawer of the check would have no record of it. The stub and check should be drawn exactly alike. Signatures should always be written in the same way and the same style of letters should be used. The name should always take up about the same space, and should not be sprawly one time and small the next. The same form should be used for the given name or initials—not John Smith one time, John R. Smith the next, and then J. R. Smith.

RIGHTS OF CHECK HOLDERS. — When the depositor has funds on hand to meet a check the bank is required to pay it, for there is a contract obligation on it to do so, and it is liable for any damages the drawer may suffer if the check is not paid. The death of the depositor revokes all his checks that are unpaid at the time of his death. A bank which pays a check with knowledge of the

drawer's death is liable to his estate. In some States a similar rule applies to checks drawn by a person convicted of a felony, since such conviction suspends all civil rights.

PAYING CHECKS. — How are checks paid? In two ways: (a) by handing cash to the payee or holder (part of the duties of the paying teller), or (b) by receiving it on deposit for the credit of another. This second method shows how important it may be for the receiving teller, some of whose duties we have already described, to know what checks are good before giving credit therefor to another party. When checks are presented to the paying teller he must (1) determine whether the check is genuine, (2) that it has not been raised, (3) that it is not dated ahead of the day on which it is presented, (4) that he knows the person presenting the check (or he must be identified by someone known to the bank), (5) that payment has not been stopped on the check, and (6) that the drawer has a sufficient amount on deposit to pay the check. It can be easily seen that the paying teller has an important position, especially when it is remembered that he often has but a few seconds to pass on all these points.

CHECKS PAYABLE TO BEARER. — Checks made payable to "bearer," "cash" or "currency" are payable to the bearer, and the teller may pay them without identification or endorsement, although it is a good rule to endeavor to

secure endorsement in any event. They may be negotiated by delivery and no endorsement is necessary. The drawing of such checks should be discouraged, for it is much safer to make checks payable to the order of some definite person.

POST-DATED CHECKS.—These are checks dated subsequent to the day on which they are issued. For instance, A may draw a check today but date it three days ahead. This is "post-dating" the check. The paying teller must not pay checks dated ahead, for by tomorrow the maker may issue a stop-order and cancel the check, or he might not have enough money on hand to enable the bank to pay it. So if the bank does pay it, it does so at its own risk. Sometimes it is a temptation to a man to date his check ahead. He owes a bill of $200. He does not have that much in the bank, but thinks he will have in a few days. So he dates the check ahead four or five days. Suppose the check gets to the bank before the four or five days are up. The bank refuses to cash it. The man who draws it is "in wrong" with his banker and loses credit. Where a check (or bill or note) is not dated, it will be considered to be dated as of the time it was issued. The paying teller can fill in the date as of the day it is presented, or the person presenting the check may do this.

OVERDRAFTS. — The paying teller must be sure before cashing a check that the depositor (who is the drawer) has sufficient money in the bank to

pay it. Otherwise, theoretically at least, the bank should not pay it. Sometimes, however, banks will, in the case of good customers, make an exception, and allow an "overdraft," which occurs when the bank pays a check drawn for a larger amount than the drawer has to his credit. A bank is not bound to pay a part of a check where there is not enough to the depositor's credit to pay it in

NOTICE OF OVERDRAFT SENT TO DEPOSITOR

The First National Bank

Idaho.....19.....

Mr.....

.....

Dear Sir:

According to our books your account appears overdrawn $..... Please advise or call on us at once.

If an immediate notice is given that your account is overdrawn, do not misconstrue the haste. It is a wise provision to detect forgery, raised checks or mistakes.

Respectfully,

....., Cashier.

REMARKS

.....

.....

.....

.....

full. Suppose A has $1,000 in the bank, and draws two checks for $600 each. The bank is bound to pay the first one presented, even though it may have been drawn later than the other one, and the bank will not have to pay the latter when it is presented, since the account would then be overdrawn. Nor would it have to pay $400 on the second one presented. Suppose the two $600 checks A has drawn are presented at the same time. If both are paid the account will be overdrawn. In cases of simultaneous presentation, the bank's officers can legally select the one they prefer to pay. Many clearing houses, however, have a rule that both checks must in such cases be paid or both refused.

STOP PAYMENT ORDER.

To NATIONAL BANK,
East Hampton, N. Y.

Gentlemen:

Please stop payment on check No..... for $..... dated .....,
payable to .....
signed as follows: .....

The undersigned hereby agrees to reimburse you for all damages, cost and expense to which you may be subjected by reason of refusal to honor this said check.

.....

STOP-PAYMENT ORDERS.—The maker of a check has the legal right, in most States, to stop payment on the check at any time before it is actually paid. So if he notifies the bank not to pay the check when it is presented, the bank cannot charge the amount to his account. The request may be by letter, telephone, or in person. Banks keep a careful record of such stop-orders.

CERTIFIED CHECKS. — It has been stated that checks differ from bills in that they are not presented for acceptance. This is substantially true, but the holder of a check may occasionally present it to the bank on which it is drawn, requesting the bank to certify upon its face that the drawer's account is "good" for the amount of the check. This the bank may do by writing the words "accepted," "certified," "good when properly endorsed," "good," or other equivalent words on the face, together with the date and the name of the teller or other officer authorized to certify. This may be done in writing or with a stamp. The check then becomes the absolute obligation of the bank—practically its promissory note—and in case the payee requested the certification, the drawer and endorser are discharged and the holder can only look to the bank for payment. The bank has guaranteed that the check will be paid on presentation. A record is kept of all certified or accepted checks. The amount is at once debited to the depositor's account and the amount that he

can otherwise draw is reduced by the amount of the certified check. The check continues to be negotiable, and the endorsers after the certification are liable. The reason for thus releasing the maker is that the holder had his choice of taking money or certification at the bank, and must abide thereby. A bank does not have to certify a check. Depositors may ask the bank to certify their checks before giving them to anyone else, for they are then more easily negotiated. But if the drawer asks the bank to certify the check before he delivers it to the payee, he remains liable. In brief, then, if the holder obtains the certification the maker is released and the holder is the loser if the bank becomes insolvent; whereas, if the drawer has obtained the certification, he is responsible in case the bank fails within a short time after he delivers the check to another.

CASHIER'S CHECKS.—Cashier's checks are orders drawn by the cashier of a bank upon a paying teller and are liabilities of the bank. They are payable on demand. A bank draft is an order by one bank on another bank to pay a third person; a cashier's check is the bank's order on itself for payment from its own funds. It may be cashed by the paying teller when it is endorsed by the payee. Or it may be deposited in another bank. It is used by the bank when it buys notes, bills or other securities, when it makes loans to outside parties, and to pay expense bills. In some

places it is exchanged for the customer's check in preference to making a certification. Registers are kept of all checks issued, and the amounts issued and paid are sent to the general ledger bookkeeper for his records. A special form of cashier's check may be used in paying dividends to stockholders. A cashier's check is not subject to a "stop-order," since the act of issuing it is regarded as an acceptance in advance.

ENDORSEMENT. — Since checks are a form of bill of exchange, the general rules regarding endorsements are the same. It should be borne in mind that checks endorsed in blank (the holder's name being written on the back of the check and nothing else) are for all practical purposes payable to bearer (endorsements should be written across the back of a check and not lengthwise). One should take care not to endorse a check in blank until just before he presents it to the bank for payment, because if the check should be lost, when endorsed in blank, the finder may cash it (receive the money on it) at the bank. Checks should be endorsed exactly as they are drawn. Thus, if a check is made payable to John R. Blair, it should not be endorsed J. R. Blair or John Blair, or in any way except John R. Blair, and if the name is wrong or spelled wrong, then the payee should endorse with the name as it is written on the face of the check, and put the correct name or spelling underneath that endorsement. Checks that are

irregularly endorsed should not be cashed. Bank endorsement stamps are either "general" or "direct." In the straight or direct endorsement a definite payee is named. The general endorsement bears the words "Pay to the Order of any Bank or Banker." The use of the latter form of stamp makes it possible to endorse all checks alike and very rapidly, thus enabling the bank to handle and assort great numbers of checks at a minimum of time and labor.

PRESENTMENT OF CHECKS. — As previously stated, bills of exchange must be presented within a reasonable time after their issue or the drawer and endorsers will be discharged. The drawer of a check remains liable indefinitely, unless he is actually injured in some way by the holder's failure to present the check for payment. If the drawer suffers any loss he will be discharged to the extent of the loss. Thus, Brown gives Smith a check for $500. Smith does not present this within a reasonable time and Brown proves that he has been injured to the extent of $100. Then Brown will only have to pay $400 on the check. Suppose Smith does not present the check within a reasonable time and before he does present it the bank becomes insolvent. Then Brown is discharged, for if the maker of a check has funds in the bank on which it is drawn and the payee has sufficient time to present the check before the bank fails but does not do so, then the maker is not at fault and should

not be made to suffer because of the payee's negligence.

CERTIFICATES OF DEPOSIT.—A has $1,000 in X Bank. He does not wish to draw checks against this amount. So he asks for a "Certificate of Deposit" from the bank. This is practically a receipt stating that "A has deposited in this bank one thousand dollars payable to his order when he returns this certificate." It is signed by the cashier. If certificates are made for a definite period, as for three or six or twelve months, they are often made with interest. They are really promissory notes of the bank. Certificates of deposit are sometimes used to transfer cash from one place to another, especially when the place to which it is desired to transfer it is a great distance off. The depositor may get a certificate of his deposit which will direct its payment to another person, and the latter will have no difficulty in getting the certificate cashed, or the amount credited to him at any bank. Again, A deposits $1,000 in a bank for safekeeping or for the use of someone else. He takes a certificate of deposit, stating that the sum has been deposited and is payable to the order of himself or of some other payee. Certificates of deposit are either "demand" or "time"; that is, payable on demand or at a stated time. Certificates of deposit may be transferred by endorsement except in Indiana and Ohio.

SPECIMEN CERTIFICATE OF DEPOSIT.

No..... *First National Bank of Statetown* 59-16

CERTIFICATE OF DEPOSIT
NOT SUBJECT TO CHECK

Statetown,.....*19*.....

.....*ha*.....*deposited in this Bank*

.....*Dollars*

payable to the order of.....

upon the return of this Certificate properly endorsed, with interest at

.....*per cent. per annum if left*.....*months.*

PAYMENT SUBJECT TO TWO WEEKS NOTICE.

$.....

.....
Cashier.

CHAPTER VI

Exchanges and Transfers

CLEARINGS AND CLEARING HOUSES.—In a small town having but one bank all of the checks growing out of purely local business are drawn upon that institution. Let us suppose that A and B are both depositors in the same bank. A gives B his check for $100 in payment for a horse. It is not necessary for B to present the check, receive the money and then redeposit the cash to his own credit. Instead, he deposits the check, the bank crediting his account and charging the account of A. The same process is being followed by all the depositors in making settlements with each other. No actual cash changes hands; there is merely an offsetting of debits with credits on the books of the bank. This is known as the "clearing principle." Banks make use of this principle in settling accounts with each other. The agency through which they avoid the constant transfer of money among themselves is the Clearing House. The term is used to apply either to the building used for this purpose or to the organization or association of the banks united together for this and other purposes. In its practical sense the clearing house represents a plan rather than a tangible thing. Let us suppose there are five banks which are members of a clearing house. At the end of

TYPICAL CLEARING HOUSE STATEMENT.

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No.	Banks	On	From	Brought to C. H.	Balances		Errors in List	Missing Endorsements	Wrong Clearings	No.
					Dr.	Cr.				
1	First National Bank									1
2	Union State Bank									2
3	Pioneer National Bank									3
4	Central Trust Co.									4
5	City National Bank									5
6	Farmers State Bank									6
7	Marion County Bank									7
8	Warwick Bank									8
9	Country Clearing House									9
10	Post Office									10
	TOTAL									
	Balance									
		Cr.	Dr.							

the day's business each member finds itself with checks drawn upon the other four. The checks of each are endorsed with the bank stamp, enclosed in a separate envelope for each bank and a total of the checks is listed on the outside. The totals are then listed opposite the bank names on a double column sheet and a footing is struck. In theory each bank assumes that these checks are not payable by the individual banks but by the "clearing house." Therefore, at a fixed time, usually about ten o'clock A. M., each bank sends a messenger to the clearing house with its checks against the other banks. In a small town the office of one of the members is used as a clearing house and an officer of that bank acts as "manager." The packages are then exchanged. Each clerk writes opposite the proper names, the amount of the checks on his bank presented by the others. These amounts are added up and the smaller amount is subtracted from the larger. If the messenger receives more checks on his own bank than his bank had on the others, then he is a "debtor." If the reverse is true, then he is a "creditor." The manager then takes the record of the debtor and creditor balances which, of course, must be equal, thus proving the correctness of the exchange. The clerks return to their respective banks having checks only on themselves, whereas they came to the clearing house with checks only on their neighbors.

SETTLEMENT OF BALANCES.—The ex-

changes having been made, the banks now prepare to settle the balances. There are various ways of doing this, depending upon the size of the city and the number of banks in the clearing house. In the smaller towns the manager of the clearing house draws drafts upon the debtor banks, which he gives to the creditors, who then present them and receive either the cash or its equivalent. Or the manager may deposit the drafts of the debtor banks with one of the members and draw his own checks against this deposit in favor of the creditors. Another method is to make payment by draft upon the Federal Reserve Bank of the district, or some other depository. In the larger cities settlement is made in cash or its equivalent, payment being made by the debtor banks to the clearing house, which acts as agent in paying over the money to the creditor banks. To avoid the handling of even this money, many clearing houses conduct a depository where deposits of gold and currency are received, and certificates in large denominations, $5,000 and $10,000 are then issued. Settlements made with these certificates are upon a cash basis, yet the danger of loss or error in handling the actual money is avoided.

CLEARING COUNTRY CHECKS. — The clearing principle as applied to check collection is not limited to the items payable in one city. Many clearing houses have also a department for the clearing of country checks. In such cases all the

member banks send their out-of-town items within a certain district to the clearing house, which operates as one bank acting for all. Thus, instead of receiving a daily letter from each bank in the city, the country bank gets all its checks from that city in one letter from the clearing house, to which it then remits with a single draft. The Federal Reserve Act has carried this process one step further by requiring the Federal Reserve banks to act as clearing houses for their member banks. Checks which each member bank sends to the Federal Reserve bank serve as credit offsets to the checks which the Federal Reserve bank receives on that member.

UNIVERSAL NUMERICAL SYSTEM.—Checks often pass through many banks before they come to the bank they were drawn on, and each bank has placed its endorsement on such checks. In each case the name of every bank was registered either as payer or endorser. Perhaps but one in every two thousand of these records will need to be referred to in case of a lost item and about one in five hundred on account of dishonor. A lot of writing is thus necessary, but seldom used. To reduce this labor to a minimum the "Universal Numerical System" was adopted. A distinctive number has been given every bank in the United States under a definite, simple, well-ordered plan. This number, consisting of a prefix—designating city or State—and a second figure denoting the

individual bank, is placed at the right of the title on the face of the check, and at the lower left-hand corner of drafts near the name of the paying bank. On endorsement stamps the number is placed on each side of the name of the bank. Designating places and banks by numbers instead of names is a time-saver and is being rapidly adopted by the banks. The saving in time can easily be seen when to indicate the "Continental and Commercial National Bank, Chicago, Illinois," only the numerals 2-3 are needed. The "2" means city No. 2 (Chicago) and the "3" shows that the Continental and Commercial is bank No. 3 in the clearing house. Under this plan the clerks do not have to commit a long list of numbers to memory, for they are printed on the check. If an item is lost and it is necessary to refer to the numerical record, the bank directory or "Key to the System" will show what bank the numbers designate. The extent to which the system may be used is left entirely to the individual bank. Some use it entirely, others only partially as suits their needs. But all banks should see that their checks, drafts and endorsement stamps show the number, so that any bank may use the system without having to supply missing numbers.

LETTERS OF CREDIT. — There are many ways in which the transfer of money funds may be effected between distant cities or between different persons. One of the more important meth-

ods used primarily in foreign trade are letters of credit. These are issued by banks. They are intended primarily for the convenience of travelers, particularly those in foreign countries. They are authorizations to the bank's correspondents to pay the bearer up to a certain named amount. Suppose A wishes to travel in Europe. He buys a letter of credit. He arrives at Paris and wishes some funds. The letter of credit gives the name of the bank's correspondent in Paris. A goes to that bank and makes out a draft for the amount he needs. The signature on the draft is compared with the signature on the letter of credit and if they correspond the money will be paid. The paying official writes down on the letter of credit the amount withdrawn, plus the commission. At any time, therefore, the letter will show how much of the credit remains unused. They are of much convenience to travelers, as advancements can be secured on them almost everywhere and no identification beyond the comparison of signatures is required. Any balance that may remain when the traveler returns will be redeemed by the bank or banker which issued the letter.

The commercial letter of credit (as distinguished from the traveler's letter) is used to pay for merchandise purchased from exporters in foreign countries. It authorizes an exporter to draw against the correspondents of the issuing bank for the amount named in the letter on account of

TRAVELERS' LETTER OF CREDIT.

Minneapolis, Minn., June 30, 1905.

Messrs. Duval and Lafronte,
Paris, France.

Gentlemen:

We take pleasure in introducing to you Mr. George Henderson, who intends visiting France and Italy. He desires us to open a credit with you for him for twenty thousand francs. You will please honor his drafts to the above-named sum, and charge the same to us, with advice.

Mr. Henderson's signature accompanies this.

Very truly yours,

FEDERAL NATIONAL BANK.

(Signature of George Henderson).

This letter would be given to Mr. Henderson. The Federal National Bank sends to Duval and Lafronte (French bankers), a letter informing them of the transaction (probably enclosing duplicate of the letter given Mr. Henderson) and giving a brief physical description of Mr. Henderson).

specific shipments. Or suppose A wishes to take a trip visiting several cities to make purchases or payments. He buys a "commercial letter of credit," upon which he will be able to raise money for his purposes at convenient points. Let us consider the case of the importer and exporter. A, living in Chicago, purchases goods from B, a merchant in Hongkong. He goes to his Chicago bank and gets a commercial letter of credit stating the terms of his purchase. Such a letter would be addressed to some London bank probably, requesting it to "accept" the drafts of the Hongkong merchant up to a certain amount and provided he complies with certain conditions named in the letter, concerning bills of lading, consular invoices, insurance papers, etc. The Chicago bank sends this letter to the Hongkong merchant. After complying with the terms of the sale he draws a draft on the London bank named, attaching the papers that may be named in the letter of credit as having to accompany the draft. He takes this draft to his local bank and sells it, the local bank of course deducting the exchange charges. The Hongkong merchant has thus received his payment for the goods and is out of the transaction. If the London banker accepts the draft he sends it to Chicago. A, the Chicago merchant, can get the goods by signing a "trust receipt," stating he will sell the goods and use the proceeds to pay the draft. Both the importer and exporter are benefited by the transac-

COMMERCIAL LETTER OF CREDIT—FRONT.

UNION NATIONAL BANK OF CHICAGO

Foreign Department

Credit No. 462.

£2,000 Sterling.

Chicago, June 14, 1913.

Messrs. Ford and Gow,
Hongkong.

Gentlemen:

We hereby authorize you to draw on the Union National Bank of Chicago, 182 Bowdoin Street, London, for account of Ralph Peterson, Chicago, Ill., up to an aggregate amount of Two Thousand Pounds Sterling available by your drafts at three (3) months' sight against shipment of silk from Hongkong to Chicago. Insurance effected in the United States.

Bills of Lading for such shipments must be made out to the order of the Union National Bank of Chicago, unless otherwise specified in this credit.

CONSULAR INVOICE AND ONE BILL OF LADING MUST BE SENT BY THE BANK OR BANKER NEGOTIATING DRAFTS, DIRECT

TO THE UNION NATIONAL BANK OF CHICAGO, AT ITS CHICAGO OFFICE, WITH NOTICE TO THE UNION NATIONAL BANK OF CHICAGO'S LONDON OFFICE.

The remaining documents must accompany the drafts drawn on the Union National Bank of Chicago, London.

The amount of each draft negotiated, together with date of such negotiation, must be endorsed on the back hereof.

We hereby agree with bona fide holders that all drafts drawn by virtue of this credit, and in accordance with the above stipulated terms, shall meet with due honor upon presentation at the office of the Union National Bank of Chicago, London, if drawn and negotiated prior to September 13, 1913.

UNION NATIONAL BANK OF CHICAGO,

By

N. B.—Drafts drawn under this credit must state that they are "drawn under Letter of Credit No. 462, dated June 14, 1913."

The Endorsements Will Appear on the Back. All the Above Letter Except the Names of the Parties, Amounts, Dates and Terms of the Particular Transaction Involved Will Probably Be Printed. The Larger Banks Doing This Business Have Regular Forms. Peterson, the Importer, Will Send This to Ford and Gow, the Exporters in Hongkong.

TRAVELERS' CHECK ISSUED BY AMERICAN BANKERS ASSOCIATION (A.B.A.)

American Bankers Association

TRAVELERS' CHEQUE

BANKERS TRUST COMPANY

NEW YORK CITY

WHEN COUNTERSIGNED BELOW WITH THIS SIGNATURE, AT ANY TIME WITHIN TWO YEARS FROM DATE, TO WIT: NO.

_____ _____ 19____

PAY TO THE ORDER OF _____ $_____

COUNTERSIGNATURE

OR ITS EQUIVALENT AS BELOW

_____

NAME OF ISSUING BANK WILL BE PRINTED IN THIS SPACE

WE HEREBY ACCEPT THE FOREGOING ORDER AND WILL PAY THE SAME, WHEN PROPERLY NEGOTIATED THROUGH ANY OF OUR CORRESPONDENTS NAMED ON THE BACK HEREOF.

BANKERS TRUST COMPANY.

By _____ TREASURER By _____ CASHIER

CHEQUES CASHED IN EUROPE WILL BE REDEEMED ONLY AT THE COMPANY'S BANKERS IN EUROPE.

Equivalents in the Money of Various Foreign Countries Are Printed on the Bottom of Such Cheques.

tion, the exporter getting his money when he sends the goods and the importer being able to sell the goods before he has to pay for them. If his credit had not been quite as good with his Chicago bank the latter might have stored the goods and turned them over to him only when he showed he had sold them and needed them to make delivery and get payment. Or they might be parcelled out to him in small lots. The Chicago bank gets a commission from A, and the London bank gets a commission for accepting the draft.

TRAVELERS' CHECKS. — A modified form of the traveler's letter of credit is the traveler's cheque issued by the American Bankers' Association and others. The "A. B. A." Cheques are of convenient size and are sold fastened in a handy leather wallet or pocketbook, from which they may be torn as needed. They are issued in four denominations—$10 (blue), $20 (green), $50 (straw), $100 (orange)—and a traveler can have a book of cheques made up in any amount to suit his requirements. At the time the cheques are bought, the purchaser writes his name on the face of each one (top line on the left) and he is instructed not to countersign them (bottom line on the left) until presenting them for payment. Hotels, banks, transportation companies and all others called upon to accept the cheques should require the holder to countersign in the presence of the person accepting them, when the signature and counter-signature

should be compared. These cheques are accepted throughout America and Europe (under normal conditions) by hotels, railroads, steamship lines, sleeping car companies, and the principal stores and shops. They may be cashed at practically all banks, including the strongest banking institutions in all the larger cities and towns.

OTHER FORMS OF CREDIT FOR TRAVELERS.—Some people prefer to take bills of exchange with them when traveling in foreign countries. Or they may take ordinary drafts on some New York bank. They can get these cashed at any European bank by paying a small amount for exchange and by being properly identified. Travelers' checks are now very largely displacing letters of credit, bills of exchange and bank drafts as credit instruments used by travelers. Bills of exchange on banks in this country and drafts upon individuals in this country are discussed in Chapter IV. Bills of exchange drawn upon banks in another country or on private individuals or business firms in some other country are known as "foreign bills of exchange." Also all bills of exchange that are payable in another State within the United States are called "Foreign Bills of Exchange." Letters of credit and travelers' checks are forms of bills of exchange, provision having been made previously for their acceptance.

UNITED STATES POSTAL SERVICE.—A much larger volume of money transfers takes place

within the United States than for travelers abroad and importers and exporters. In these domestic remittances the postal service of the United States is of vital importance to banks and their customers. It is conducted not as a money making institution but to provide a safe, swift and convenient way for sending letters, packages and printed matter of different kinds at small expense. Indeed, it has been shown at times that on some classes of mail the Government actually loses money.

REGISTERED MAIL.—All domestic mail matter except fourth-class matter (domestic parcel post mail) can be registered at the low rate of ten cents for each package (in addition to the regular postage). Fourth-class matter may be insured. Each package registered must bear the name and address of the sender. Indeed, it is advisable that all letters sent through the mails should bear the sender's name and address, so that if necessary they may be returned to him. A receipt for registered packages will be returned from the persons to whom they are sent if they are endorsed "receipt desired," or words meaning the same thing. Mail matter can be registered at all postoffices in the United States. An indemnity—not to exceed $50 for any one registered piece, or the actual value of the piece if it is less than $50—will be paid for the loss of first-class registered matter mailed at and addressed to a United States postoffice. Likewise an indemnity of not to exceed $25 will be paid

for domestic third-class matter. Money is sometimes sent by this method, but as not over $50 will be paid for its loss it is not often done. However, much currency and some valuable commercial paper is sent through the registered mail, the package first being insured in an insurance company. Money is usually sent by registered mail from such postoffices as are not allowed to issue money orders; or such towns as do not contain express offices. No indemnity will be paid if the loser has been reimbursed in some other manner. Claims for indemnity must be made within one year from date of loss of domestic mail and within one year from the date of mailing of foreign mail. The limit of indemnity paid for registered articles lost in mail sent to foreign countries is $10.

POSTOFFICE MONEY ORDERS. — The method usually used by business men in paying accounts or debts in some other city is to send their creditor a bank draft. Or they might send a check or a promissory note. Other methods are, however, just as safe and almost as convenient. One of these is the use of postoffice money orders, which are of two kinds, domestic and international. Generally speaking, domestic money orders are payable at home, while international money orders are payable abroad. To secure a money order it is necessary to fill out an application blank, which is furnished by the postoffice authorities, stating the name and address of the payee and the remitter,

together with the amount of money it is desired to send. On receipt of the application and the money (plus a small charge), the postmaster issues the money order, which is addressed to the postmaster at the place where the order is being sent, who is directed to pay to the payee named in the money order the sum of money stated therein. The remitter sends the money order to the payee, who, on presenting it at the postoffice where he lives, can secure the money on proper identification. All postoffices except a few in the smallest towns are allowed by the Government to issue money orders. Money orders can be used to send money only to such offices as are allowed to issue them. The maximum amount for which a single money order may be drawn is $100. The applications for money orders are kept three years by the issuing office. As stated above all domestic money orders must be made payable at a designated money order office; but it is very important to notice that those issued at any money order office in the continental United States, excepting Alaska, may be paid at any money order office in the continental United States, excepting Alaska, if they are presented for payment on or before the expiration of the thirtieth day following the date of issue. If they are presented after that date and within one year from the last day of the month in which they are issued, they shall be paid only at the office designated in the money order as the paying office, or repaid at the

office of issue. The postmaster will not pay the order until he is satisfied that the person presenting it is the person named in the order. Before it is paid the holder will be required to receipt it. Postoffice money orders may be transferred by endorsement, but only one endorsement is permitted. Banks will frequently accept money orders on deposit. Stamps of banks who have handled the order are not regarded as endorsements.

EXPRESS MONEY ORDERS.—Express companies also issue money orders, which are payable at any of their offices. The leading companies have offices or agencies in every part of the United States. Small fees are required. These orders, unlike the postoffice money orders, can be negotiated any number of times. Banks will receive them on deposit as readily as they will take checks or drafts.

MONEY SENT BY TELEGRAPH.—Money funds may be transferred from one place to another by telegraph. Only the larger offices of the telegraph companies are permitted to send such orders and they can only be sent to certain offices. The paying office requires the person presenting the telegram to prove that he is the person named in it. This method of sending money is much more expensive than the other methods, and is used only under conditions requiring prompt dispatch.

EXPRESSING COIN OR BULLION. — In spite of the many ways in which funds may be

safely and securely transmitted from place to place by bankers or others, it is occasionally necessary to ship actual money and no substitutes will suffice. The safest way in which to send coin, currency or bullion from one place to another is by express. The shipper places the money in an envelope and it is not counted by the express company, which simply guarantees the safe delivery of the package. The cost of shipping money by express varies with the amount and distance. The express companies have one rate applicable to property valued at not over $50 and another for property valued at $50 or over. These rates are regulated by the Interstate Commerce Commission. Large shippers of money are permitted to secure a special rate from the company and the Government is given very low rates. Uniform express receipts are used by all express companies.

ENDORSEMENT STAMPS SUCH AS ARE USED BY BANKS AND BY MOST LARGE BUSINESS HOUSES. OBSERVE THE USE OF THE UNIVERSAL NUMERICAL SYSTEM.

Pay to the order of
ANY BANK, BANKER OR TRUST COMPANY.
All Prior Endorsements Guaranteed.
MAY 8, 1917.
FIRST NATIONAL BANK,
STATETOWN.
59-16 **WARREN DAY**, Cashier. 59-16

PAY TO THE ORDER OF
THE FIRST NATIONAL BANK
64 OF STATETOWN. 64
BROWN PRINTING CO.

PAY TO THE ORDER OF
AMERICAN BANKERS BANK.
JAN. 17, 1917.
FIRST NATIONAL BANK,
59-16 STATETOWN. 59-16
WARREN DAY, Cashier

CHAPTER VII

Bills of Lading and Other Documents

BILLS OF LADING.—A bill of lading is an itemized statement of goods shipped. The possession of it gives the purchaser, or the person to whom the goods are shipped, a right to receive them. The person shipping the goods is called the "consignor"; the person receiving the goods is known as the "consignee." The bill of lading is given by the carrier (steamboat company, railroad, etc.) to the person shipping the goods. It is a receipt by the carrier acknowledging the acceptance of goods. It is also a contract between the carrier and shipper stipulating the terms and manner of shipment, and the carrier's responsibility. Thus, we can say that the bill of lading is both a receipt and a contract. There are two kinds of bills of lading: (1) the "straight bill," where the goods are consigned or sent to a specified person, which is non-negotiable; and (2) the "order bill," which is negotiable. The latter states that the goods are sent to the order of any person named in the bill as consignee. In the "order" bill endorsement is necessary to secure the goods. Such order bills are salable credit instruments and may be transferred. It is a favorite form of collateral for loans from banks. Two copies of the bill of lading (B/L) are usually made. One of these is

"STRAIGHT" BILL OF LADING—NON-NEGOTIABLE.

EAST AND WEST RAILROAD COMPANY

STRAIGHT BILL OF LADING—ORIGINAL—NOT NEGOTIABLE

Shipper's No._____
Agent's No._____

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at ....., 191

from .....the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof) and which are agreed to by the shipper and accepted for himself and his assigns.

The Rate of Freight from.....

to .....is in Cents per 100 Lbs.

IF__ Times 1st	IF 1st Class	IF 2d Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special Per_____	IF Special Per_____

(Mail Address—Not for Purposes of Delivery)

Consigned to .....

Destination .....State of .....County of .....

Route .....Car Initial .....Car No.....

No. PACKAGES	Description of Articles and Special Marks	WEIGHT (Subject to Correction)	CLASS OR RATE	CHECK COLUMN

If charges are to be prepaid, write or stamp here, "To be Prepaid."

.....

Received $ .....

to apply in prepayment of the charges on the property described hereon.

.....
Agent or Cashier

Per.....

(The signature here acknowledges only the amount prepaid.)

Charges Advanced:

$.....

..... Shipper..... Agent.

Per..... Per.....

(This Bill of Lading is to be signed by the Shipper and Agent of the carrier issuing same.)

NEGOTIABLE BILL OF LADING.

EAST AND WEST RAILROAD COMPANY.

ORDER BILL OF LADING—ORIGINAL

Shipper's No. _____
Agent's No. _____

RECEIVED, subject to the classifications and tariffs in effect on the date of issue of this Original Bill of Lading,

at ....., 191

from .....the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned and destined as indicated below, which said Company agrees to carry to its usual place of delivery at said destination, if on its road, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property, over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions, whether printed or written, herein contained (including conditions on back hereof), and which are agreed to by the shipper and accepted for himself and his assigns.

The surrender of this Original ORDER Bill of Lading properly endorsed shall be required before the delivery of the property. Inspection of property covered by this Bill of Lading will not be permitted unless provided by law or unless permission is endorsed on this original bill of lading or given in writing by the shipper.

The Rate of Freight from.....

to .....is in Cents per 100 Lbs.

IF Times 1st	IF 1st Class	IF 2d Class	IF Rule 25	IF 3d Class	IF Rule 26	IF Rule 28	IF 4th Class	IF 5th Class	IF 6th Class	IF Special Per_____	IF Special Per_____

(Mail Address—Not for Purposes of Delivery)

Consigned to ORDER OF.....
Destination .....State of .....County of .....
Notify .....
At .....State of .....County of .....
Route ..... Car Initial ..... Car No .....

No. PACKAGES	Description of Articles and Special Marks	WEIGHT (Subject to Correction)	CLASS OR RATE	CHECK COLUMN

If charges are to be prepaid, write or stamp here, "To be Prepaid."

.....

Received $.....
to apply in prepayment of the charges on the property described hereon.

.....
Agent or Cashier

Per .....
(The signature here acknowledges only the amount prepaid.)

Charges Advanced:

$.....

..... Shipper ..... Agent

Per..... Per.....

(This Bill of Lading is to be signed by the Shipper and Agent of the carrier issuing same.)

"AGENTS MUST DETACH THIS SLIP BEFORE DELIVERY OF BILL OF LADING TO SHIPPER.

This color and form of Bill of Lading must be used only for shipments consigned to 'Order.' In way-billing shipments consigned to 'Order' a conspicuous notation must appear upon the way-bill reading: 'The surrender of the Original Order Bill of Lading, properly endorsed, must be required before the delivery of the property.'"

signed by the shipper and delivered to the carrier and the other is signed by the carrier's agent and delivered to the shipper. Usually the consignor sends his copy to the consignee. When the latter receives it he has something to prove that the goods should be delivered to him.

WHAT A BILL OF LADING MUST CONTAIN.—Since bills of lading (both straight and order) are much used for collateral, banks should know when they are good. Every bill must contain the following essentials: (1) date of issue; (2) name of person from whom the goods have been received; (3) place where they have been received; (4) place to which they are to be sent; (5) a statement whether the goods are to be delivered to a specified person, or to that person's order; (6) a description of the goods or of the packages containing them (this description may be in general terms); and (7) the carrier's signature, which may be made by its agent. The carrier may insert in the bill any terms not inconsistent with the foregoing essentials, and that do not impair his obligation to exercise reasonable care in handling the goods.

ACCEPTANCE AND CARRIER'S LIEN.—If the shipper receives the bill and makes no objection at the time to its terms, then neither he nor any other person can afterwards deny that he is bound by the lawful terms of the bill. The carrier has a lien upon the goods for the payment

of freight, storage and other charges. In other words, until all charges are paid he does not have to deliver the goods.

BILLS OF LADING AS COLLATERAL FOR LOANS.—Suppose A wishes to borrow $1,000 from some bank. He gives the bank his promissory note and also a bill of lading for certain goods. If A is unable to pay the note when it is due the bank can demand the goods for which the bill of lading was issued and sell them. Banks in receiving such bills should remember: (1) the bill of lading does not guarantee the quality or quantity of the goods, since the description is furnished by the shipper, and if the latter has deliberately or unintentionally deceived the carrier the latter will not be held liable to deliver the goods described in the bill of lading, but only the goods actually received; (2) part of the goods may have been delivered and their delivery not stated in the bill; (3) the goods may have deteriorated. Bills that are old (known as "stale bills") should be very carefully investigated, for the goods may have been lost or destroyed or injured in some way, so that the bill would be of no use to the bank if it had to proceed on it.

BILLS OF LADING WITH DRAFT ATTACHED.—Suppose A, of Chicago, receives an order for a bill of goods amounting to $1,000 from B, of Minneapolis. A does not wish to ship the goods without being assured that payment will be promptly made (perhaps he does not know B, or

NOTICE BY BANK TO CONSIGNOR THAT DRAFT WITH BILL OF LADING ATTACHED HAS NOT BEEN PAID

The First National Bank

....., 190.....

.....

.....

Dear Sir:

We have received your favor of..... enclosing Draft.....with Bill of Lading attached on

.....

.....

.....

We have made presentation to consignee.....and answer is made that the goods are not yet here, and that the Draft.....will receive attention as soon as the goods arrive.

We have no way of ascertaining the arrival of goods except by notice from the consignee....., and unless we receive instructions from you to the contrary we will hold the Draft..... here until the consignee.....inform us that the goods are in.

We shall be pleased to comply with any special instructions that you may wish to give us.

Yours very truly,

Cashier.

B's credit is not very good). The best way to be sure of this is to ship the goods "C. O. D." by freight. This is usually done by means of an "order" form of bill of lading with draft attached. A would send the goods to the order of himself at Minneapolis, being both consignor and consignee. He would also endorse the bill of lading and attach it to a draft drawn on B. The draft would be sent to some Minneapolis bank for collection from B. When B pays the draft the bank will turn over to him the bill of lading, and he can then get the goods, since the bill has already been endorsed to him. B would be informed of the start of the shipment, and also advised how the goods were shipped.

SENDING GOODS BY EXPRESS.—In another chapter we saw how coin and bullion is often sent by express. The same rules apply to shipments of other articles by express. Shippers should always address packages clearly and also put their own names on them. They should always get a receipt from the express company. Express companies are responsible for losses caused by the negligence of their agents. The receiver of an express package must sign a receipt on getting it from the express company's agent. The charges may be prepaid or not, as the sender prefers. If the goods are sent C. O. D. (Collect on Delivery—to be paid for when delivered) the sender makes out a bill of the goods (giving names of buyer and seller,

date and place of sale, kind, quantity and price of the goods, and the terms of the sale). This bill is placed in an envelope called a C. O. D. envelope, which is sent with the goods. Before the goods are surrendered by the express company to the consignee, the express charges for carrying and delivering the goods and the amount of the bill are collected. Sometimes the express company collects charges for the return to the shipper of the money collected. If the company delivers goods, sent C. O. D., without collecting the money it will be liable for any injury suffered by the shipper.

INVOICES.—When goods are sent C. O. D. by express the sender makes out a bill containing a description of the goods. Such an itemized state-

INVOICE WITH TERMS OF DISCOUNT NOTED. IF TRADE DISCOUNT WERE ALLOWED IT WOULD APPEAR UNDERNEATH THE TOTAL PRICE ADDED AFTER THE DESCRIPTION OF THE GOODS

St. Paul, Minn., April 1, 1913.

Mr. .....Dr.

Bought of
Craig and Jensen, Wholesale Druggists

Terms: Net 60 days
Less 3% if paid within 10 days.

(Here follows description of goods bought with price)

ment is also made out whenever goods are sold, and a copy is given to the buyer by the seller. This statement is known as an invoice. There are columns in which to place any discount that may be allowed. When such bills or invoices are receipted, showing that they have been paid, the receipt should always appear on the face. Invoices sometimes are assigned to banks and are known as "Accounts Receivable," the sender possessing a lien upon the accounts.

RECEIPTS.—When one person receives money from another it is customary to give a receipt or voucher, showing the amount, the purpose for which the money was paid, the date, the name of the person paying the money, and the signature of the person paid. Blanks for receipts can be obtained at any stationery store. Care should be taken to preserve all receipts of whatever kind, for they are often very important as evidence if there is an attempt made to collect a second payment.

RECEIPT FOR PAYMENT ON ACCOUNT FOR ANOTHER

Belvidere, Ill., Oct. 10, 1916.

$22.00

Received of Thomas Hill, twenty-two dollars, to apply on the account of George H. Jones.

JOHN KELLY.

RECEIPT FOR PART PAYMENT ON NOTE.
(The Amount Paid Should Also Be Endorsed on the Back of the Note.)

Winona, Minn., May 15, 1894.

$60.00

Received of Carl Lindquist, sixty dollars, to apply on his note of one hundred and fifty dollars in my favor, dated January 11, 1891.

SEVERN NELSON.

RECEIPT TO APPLY ON ACCOUNT.
(If the Account Had Been Paid in Full the Words "In Full of Account to Date" Might Have Been Added After the Word "Dollars.")

New Orleans, La., February 14, 1916.

$50.00

Received of James Allen, fifty dollars, to apply on his account.

GEORGE BUSH.

RECEIPT FOR MERCHANDISE ON ACCOUNT.

Newton, Iowa, November 3, 1911.

$80.00

Received of John Fisher, 80 bushels of wheat at one dollar per bushel, to apply on account.

VINCENT ROE.

RECEIPT BY PERSON UNABLE TO WRITE.
(All Documents Signed by Such Persons Should Also Be Signed by Witnesses.)

Columbia, Mo., September 25, 1910.

$20.00

Received of Fred Smith, twenty dollars, in full of all demands to date.

Witness: C. L. ARNOLD
B. J. QUIST

His
JOHN x SMITH.
Mark

ELEVATOR RECEIPTS. — All receipts are not made for money received. They may be for goods received. Thus, elevator receipts show that grain is held in storage at an elevator. They are somewhat like warehouse receipts, which are hereinafter considered.

WAREHOUSE RECEIPTS. — A warehouse receipt is for goods classified and placed in a warehouse. It is a receipt for goods received and a contract for their safe care and redelivery. It is given by the warehouse to the depositor. There are two forms: (1) "non-negotiable," which states that the goods will be delivered to the depositor or to some other specified person; (2) "negotiable," which states that the goods received will be delivered to bearer or to the order of some person named in the receipt. A provision inserted in a negotiable

ELEVATOR RECEIPT

No. 7000

EAST AND WEST RAILROAD COMPANY
GRAIN ELEVATORS

Kind of Grain....
Bushels....
Grade.....

Weehawken, N. J. ....., 191....

Received in Store from .....

..... Bushels

of ..... subject

only to the order hereon of .....

and the surrender of this receipt, and payment of charges.

THIS GRAIN IS STORED SUBJECT TO ALL OF THE CONDITIONS PRESCRIBED IN OUR TARIFFS FILED WITH THE INTERSTATE COMMERCE COMMISSION.

..... Manager

.....

receipt stating that it is non-negotiable is without effect. Warehouse receipts may be issued only by licensed warehousemen, and must embody the following essentials: (1) location of the warehouse; (2) date of issue; (3) consecutive number of the receipt; (4) whether the goods will be delivered to bearer, to a specified person, or to the order of some specified person; (5) rate of storage charges; (6) description of the goods or of the packages containing them; (7) signature of the warehouseman or his agent. If the warehouseman is owner in whole or in part of the goods that fact must be stated. If any advances have been made and liabilities incurred for which the warehouseman claims a lien on the goods (right to be paid before they are delivered) that must also be stated in the receipt. If any of the essential terms are omitted the warehouseman is liable for any injury caused thereby. He may put in the receipt any terms not contrary to law or not relieving him of reasonable care of the goods stored. As in the case of bills of lading, these provisions are subject to change in some States.

USE OF WAREHOUSE RECEIPTS.—Suppose A, a farmer, deposits certain grain in a warehouse (usually, however, the man who purchases the grain from the farmer will be the one to do this). He secures a receipt and is entitled to the possession of the grain on payment of the charges. He then wishes to sell the grain to B. He endorses

NON-NEGOTIABLE WAREHOUSE RECEIPT

EAST AND WEST WAREHOUSE COMPANY

100 MAIN STREET

No...... *New York,*..... *191*.....

Received ON STORAGE IN WAREHOUSE, 100 MAIN ST., NEW YORK CITY FROM ..... THE FOLLOWING PACKAGES (CONTENTS AND CONDITION OF CONTENTS UNKNOWN) EX .... SAID TO CONTAIN THE GOODS DESCRIBED BELOW.

MARKS	NUMBER	PACKAGES	KIND	DESCRIPTION

WHICH WILL BE DELIVERED TO THE DEPOSITOR ON PAYMENT OF THE CHARGES SPECIFIED HEREON.

ADVANCES MADE
LABOR IN AND OUT PER
STORAGE PER MONTH PER

EAST AND WEST WAREHOUSE COMPANY,

.....
President

The Words "Not Negotiable" Are Required to Be Printed Across the Face of the Non-Negotiable Warehouse Receipt.

the receipt to B and is paid for it (only in the case of a negotiable receipt, and most receipts are made negotiable). It may also be used as collateral for the advancement of funds. Of course, when a receipt is negotiable, it may be passed any number of times. Again, terminal elevator companies often buy a great deal of grain and to do so must borrow heavily at the banks. To get the loans they deposit as collateral, elevator receipts, which are regarded as good security. When the grain is sold the loans are paid and the receipts surrendered.

OBLIGATIONS AND RIGHTS OF WAREHOUSEMEN.—A holder in good faith of a warehouse receipt is entitled to rely on the statements it contains. So warehousemen should be careful not to issue receipts except for goods actually delivered to them. Nor should they deliver goods to anyone except upon surrender of the receipt. Otherwise, they might have to deliver a second time and have to buy the goods themselves with which to do so. Of course, if 1,000 bushels of wheat are deposited the warehouseman does not have to deliver the same identical wheat, but he must deliver 1,000 bushels of the same grade. The warehouseman is justified in delivering the goods (1) to the person lawfully entitled to the goods; (2) to that person's agent; (3) to a person entitled to delivery by the terms of a non-negotiable receipt; (4) to someone who has written authority (not an endorsement) from such person; (5) to a per-

NEGOTIABLE WAREHOUSE RECEIPT

EAST AND WEST WAREHOUSE COMPANY

100 MAIN STREET

No...... *New York,*.....*191*.....

Received ON STORAGE IN WAREHOUSE, 100 MAIN ST., NEW YORK CITY, FROM.....THE FOLLOWING PACKAGES (CONTENTS AND CONDITION OF CONTENTS UNKNOWN) EX.....
SAID TO CONTAIN THE GOODS DESCRIBED BELOW.

MARKS	NUMBER	PACKAGES	KIND	DESCRIPTION

WHICH WILL BE DELIVERED TO ORDER ON PAY MENT OF THE CHARGES SPECIFIED HEREON AND THE SURRENDER OF THIS RECEIPT.

ADVANCES MADE
LABOR IN AND OUT PER
STORAGE PER MONTH PER

EAST AND WEST WAREHOUSE COMPANY,

.....
President

son in possession of a negotiable receipt by the terms of which the goods are deliverable to him or to order or to bearer. If the receipt has been in any way altered the warehouseman is liable only according to the original terms. If a receipt has been lost the warehouseman may be ordered by a court to deliver the goods, provided that loss or destruction of the receipt is proved and that the person to whom the goods are then delivered furnishes a bond to protect the warehouseman from loss in case the original receipt should ever be presented. The warehouseman is liable, unless the receipt specifically provides otherwise, for any loss or injury to goods deposited with him that "reasonable diligence" could have avoided.

STATEMENTS OF ACCOUNT. — Banks periodically render statements of account to their depositors. Business men and firms also make out statements of account, which are sent to their debtors. They show all the debits and credits of an account as they appear on the seller's books. It is not necessary to make out an itemized statement if an invoice was made out and delivered to the purchaser when each purchase was made. If this has been the case it will be sufficient to simply give the date and amount of each purchase in the statement, with the words: "As per bill rendered." Retail businesses usually send out these statements at the end of each month. Wholesale dealers usually make them out when the term of credit

has expired. For instance, if goods have been sold on sixty days' credit, the statement will not be sent out until this period is up.

CASH DISCOUNT.—Goods are generally sold on credit. The sellers usually allow a certain percentage of the total off if the bills are paid before they are due. Thus, if the whole amount is due in sixty days, the wholesaler may allow a certain per cent. off from the total if it is paid within ten days. Suppose the per cent. that would be allowed off is three. Then the terms of discount might appear on the bill as 3/10, meaning that a discount of three per cent. will be allowed if the bill is paid in ten days.

TRADE DISCOUNT. — Manufacturers and dealers often allow to their best customers, and those buying in large quantities, what is known as trade discount. This means that a discount is allowed from the amount of the bill. Suppose A buys from B $200 worth of goods. He is allowed a discount of 10% from the list price. Then he would only have to pay $180 to B. Suppose the terms had stipulated that he be allowed a discount of 10% and 5% off from the list price. This would not give him a reduction of 15% from the $200, but it would give him a further discount of 5% of the $180, or $9, making only $171 A would have to pay. He might in addition be allowed a cash discount.

CREDIT MEMORANDUMS.—Sometimes re-

bates or deductions are made to purchasers. This may be done because the goods are not satisfactory and are returned, or the price is higher than the purchaser had expected, or for some other reason. The seller will make out and send to the purchaser a memorandum of credit, which shows how much credit or reduction he will be allowed. It differs from the invoice in that it shows a credit instead of a debit. Credit memorandums are usually printed in red.

ORDERS FOR GOODS. — These are very similar to drafts. They are orders by one party to another party to give the party holding the order the goods mentioned. Thus, A orders B to give C goods from B's store to the value of $10. This order might be made out in the accompanying form:

Minneapolis, Minn., July 10, 1911.

Mr. Robert Burns:

Please deliver to Charles Conant, goods from your store to ten dollars. Charge to my account.

THOMAS GORDON.

Such orders are not negotiable. This does not mean that they cannot be given to someone else. But they can only be "assigned." What is the difference between "assignment" and "negotia-

tion"? Suppose B steals a draft from A. He can get nothing on it himself, but if the draft is in the right form he can sell it to an innocent purchaser who can enforce it fully—it has been negotiated. Take the above order for goods, which we said could only be assigned. This means that if Gordon turned it over to Smith, that Smith could only get Gordon's rights, while in the case of negotiation, an innocent purchaser may get more rights than were possessed by the party from whom he purchased such an instrument.

CHAPTER VIII

Special Problems in Law

CONSIDERATION. — In Chapter II it was shown that "consideration" means that "neither party has a right to get anything from the other unless something has been given or promised in return." In all forms of contracts a consideration is absolutely necessary in order to enable either party to compel the other to do what has been agreed to. In negotiable instruments, such as checks and drafts, the consideration is presumed to exist until it is proved that it does not. In most other forms of contracts the consideration must appear in the contract itself. Consideration can easily be understood if we view it as a price paid, without which the party receiving it would not have made the contract. Suppose A promises B $500 as a present and gives him a promissory note for that amount. B cannot make A pay him the $500, because there is no consideration for A's promise. But suppose B had given A his horse, worth $100, in exchange for A's promise to pay the $500. In that case A can be compelled to pay the $500, because there is consideration and it is not necessary that the consideration equal the promise in value. Frequently in business transactions of all kinds we find considerations of $1 paid, which will enable one to enforce agreements concerning

even thousands of dollars. A past consideration or a moral obligation will not support a promise to do something. Thus, suppose A finds B's automobile, which has been stolen, and returns it to B. B promises to pay him $100 as a reward. A cannot enforce this promise, because: (1) it rests on a past consideration; (2) A was under a legal duty to return the automobile to its owner. Suppose there had been no legal obligation to return the found automobile, but only a moral obligation. The promise could not be enforced in that case, for the law will not concern itself with moral obligations or ethical considerations.

VERBAL PROMISES.—It was also shown in Chapter II that "a promise to do something is a sufficient consideration for another promise." One party's promise is a good consideration for a promise by the other party. We likewise saw what contracts must be in writing. Many important kinds of contracts, however, may be verbal. The chief difficulty of oral contracts arises when it is endeavored to prove their existence, and what their terms are. The parties may actually have forgotten, or one party may be fraudulently trying to get some advantage over the other party. Much misunderstanding and dissatisfaction are likely to result from verbal contracts, and whenever possible contracts should be reduced to writing. Suppose A promises to pay B in three years $500 with interest at six per cent. The promise is not in

writing. If A dies it will be difficult for B to prove that the promise was ever made, unless there were others who heard it made. Or the parties may disagree over the amount of the principal or the interest or whether the interest was to be simple or compound. The mistake may be an honest one or one party may be trying to gain some advantage by deliberately lying. Even witnesses may disagree—a man's memory is not as reliable as a memorandum in writing over his signature.

RELATION OF AGENT AND PRINCIPAL. —One man may employ another to mow his lawn, but there are no relations here that inevitably seem to affect the rights of other parties. But when one man employs someone else to represent him in dealing with a third person, the relation of agency arises. It can only arise from contract, express or implied. The agent is not subject to the direct control of the principal. A employs B to purchase an automobile for him. B does so. A is the "principal" or employer; B is the "agent." The law of California defines an agent to be "one who represents another called the principal in dealings with third persons; such representation is called agency." Agents are of two classes: (1) "General" and (2) "Special." A general agent is authorized to conduct all the business of the principal, or at least all the business of a particular kind. A special agent is only authorized to do one or more specific acts for the principal. What-

ever business a person can transact himself he may transact through an agent. Of course, what he cannot do himself he cannot accomplish through anyone else. The act of the agent is assumed to be the act of the principal.

HOW AGENCY IS CREATED AND TERMINATED.—In general any person who can make a contract can appoint an agent. Some persons who cannot make contracts themselves may be agents, at least so far as binding the principal and a third party is concerned. An agency may be created by an express agreement between the parties (principal and agent). This agreement may be oral or written. If written it may also be sealed. An agency may also be implied from conduct; for instance, partners are held to be the agents of each other; a guest at a hotel could assume that the clerk has authority to take charge of money handed to him for safe-keeping. Agency may arise from relationship; a wife can bind her husband to pay for necessaries which she has purchased. If A allows B to represent himself as A's agent, and does not protest, he cannot later deny that B was his agent; that is, the agency is created by estoppel. Suppose B acts as A's agent, but without the knowledge of A. If, when A learns of it, he takes advantage of B's acts, he cannot then deny that B was his agent. He is held to have ratified B's unauthorized act. Since agency is the result of a contract it can be terminated only in the ways

that an ordinary contract may be terminated; that is, by complete performance; by the express terms of the contract, which may provide for its termination; by mutual agreement of the parties; by impossibility of performance; by operation of law; or by breach of the contract. Under "operation of law" would come the bankruptcy of the principal, which will discharge the contract; but the bankruptcy of the agent does not necessarily terminate his agency. The death of either party will terminate the agency.

LIABILITIES OR DUTIES OF THE PRINCIPAL.—A principal is under certain obligations to his agent and to third parties. He is under obligation to pay the agent his compensation. The amount of the compensation or salary may be stated in the contract or it may be based on the reasonable value of the services rendered. Unless it is otherwise agreed, an agent will not be entitled to compensation until he performs what he has agreed to do. He is entitled to be reimbursed for any money he may have advanced for his principal. A principal's liability to third parties includes his obligation to perform all contracts made by his agent within the scope of the agent's authority. A bank cashier is an agent of his bank and has power to draw checks or drafts upon the funds of the bank; to endorse and transfer negotiable paper (checks, bills, notes); to certify checks drawn by depositors; to collect money due the bank; to

POWER OF ATTORNEY

Know all Men by these Presents, THAT WE.....
.....
.....
the members of the firm of.....
.....County of .....State of .....
have made, constituted, and appointed, and by these presents do make, constitute and appoint.....
said firms and our true and lawful Attorney, for it and us and in its and our name, place and stead, to sign, endorse, draw, accept, make, execute and deliver, all such Notes, Checks, Bills of Exchange, and other contracts or instruments in writing, with or without seal, and such verbal contracts as he may deem proper, giving and granting unto its and our said Attorney full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises, as fully, to all intents and purposes, as we ourselves, or either of us, might or could do if personally present, hereby ratifying and confirming all that its and our said Attorney shall lawfully do or cause to be done by virtue hereof.

In Witness Whereof, We have hereunto set....hand and seal and the signature and seal of said firm, the.....day of .....in the year one thousand nine hundred and.....

State of
County of } ss.

Be it Known, That on the day of in the year one thousand nine hundred and before me .....personally came
.....
.....known to me to be the individuals described in, and who executed the foregoing Power of Attorney and who compose the firm of.....
.....
and acknowledged the above Power of Attorney to be .....act and deed, and the act and deed of said firm.

In Testimony Whereof, I have hereunto subscribed my name and affixed my official seal the day and year last above written.

borrow money for the bank and to loan money. Sometimes when an agent deals with a third person he may not tell the latter he is acting for a principal. An agent is always liable in such a case.

LIABILITIES OR DUTIES OF THE AGENT.—An agent also has duties to his principal and to third parties. He must use the utmost care in protecting his principal's interests. He must not make any secret profits himself and any contracts he may make must be accounted for to his principal. He must strictly obey the lawful instructions that his principal may give him, and is liable to the principal for any loss to the latter that the agent's negligence and lack of care may cause. He must use reasonable prudence in carrying out the affairs of his principal that have been intrusted to him. Generally speaking, an agent must act in person and cannot delegate his authority to some one else. That is, if A authorizes B to act as his agent, B cannot turn over to C this agency, for A has a right to say whom he wishes to act as his agent. An agent must also, whenever demanded, give complete reports to his principal. An agent is liable to third parties if he exceeds his authority in such a way that his principal is not bound, and thus is liable for any fraud committed by him while on the principal's business. Suppose A makes a contract with B, telling B that he is acting for X. As a matter of fact X does not exist. Then A is liable to B. If an agent

makes a contract with third parties in such a way that his principal is not bound, then the agent is liable himself. "We, as Directors of the A. B. Corporation, promise to pay to X's order five hundred dollars. C, D, E, Directors of the A. B. Corporation"; in this case the A. B. Corporation is liable, for it is the corporation's promise. Suppose the note had read "We promise to pay, etc.," and had been signed by C, D and E; here the corporation would not be liable, but C, D and E would be liable individually. Suppose an agent does not disclose the name of his principal. When the third party finds out who the principal is, then he may hold either the agent or the principal (but not both).

POWER OF ATTORNEY.—A power of attorney is a written or printed paper by which one person gives authority to another person to act for him; it must state the extent of the authority given and specify just what power the attorney has. It must be signed and acknowledged before a notary public or other officer authorized by law to take acknowledgments. After a power of attorney has been executed and delivered, the signature of the second party (the one to whom the power of attorney is given and who is called the "attorney in fact") has just as much force as if the first party had signed himself. A power of attorney is construed strictly, and the agent (the person to whom it is given) can exercise no other powers than are expressly stated in it. In cases where the agent

is authorized to make contracts which must be under seal, then the authority of the agent (the power of attorney) must also be under seal. An agent must have a power of attorney: (1) To execute a deed of conveyance for his principal; (2) to execute a mortgage; (3) to execute a lease of lands for more than three years; (4) to transfer title to or interest in a ship; (5) to execute a bill of sale under seal; (6) to execute a bond; (7) to execute an enforceable promise without a sufficient consideration to support it; (8) any other formal document. While a power of attorney is necessary in the above cases, to make the acts of the agent binding, it may be used in other cases. Powers of attorney are often used in the transfer of stock certificates. It is incumbent upon persons dealing with "attorneys in fact" to examine the power of attorney in order to determine just what power the agent has.

PARTNERSHIP.—A partnership is a relation growing out of a contract, in which two or more persons agree to do business as a firm. The losses and profits must be shared between them (this is usually the test as to whether a partnership really exists in a given case). Partners have certain relations to each other. No person can become a member of a partnership without the consent of all the members. Suppose A, B and C are partners. C sells out his share to X. X cannot become a partner unless A and B are willing. If they will

not take him as a partner (and this means forming a new partnership) then X can compel the selling of the partnership's property and obtain C's share after the debts have been paid. The same thing would be true if X had inherited C's share. All partners have an equal right in the management and conduct of the firm's business. They cannot be excluded from this right and are entitled to have the business conducted according to the terms of the agreement. Ordinary differences arising in the conduct of the business can be determined by a majority of the partners. But the nature of the business cannot be changed unless all the partners agree. A partner is not entitled to interest on the money he has contributed, but he is entitled to interest on any advances made beyond the amount he agreed to put in. Thus, A agreed to subscribe $5,000. He actually advances $8,000. He is entitled to interest on the $3,000. After all debts of the partnership are paid each partner is entitled to share in the profits according to the amount invested, and if the partnership is dissolved to have the amount contributed or any other advances he has made repaid. Thus, A, B and C put in, respectively, $2,000, $3,000 and $5,000 in a partnership. At the end of the first year, after all debts are paid, there is $12,000 on hand. The $2,000 profit will be divided as follows: $400 to A, $600 to B, and $1,000 to C. Moreover, no partner can claim compensation beyond his share in the

profits unless all have agreed otherwise. But if A and B are partners and B neglects the business and as a result A is compelled to do all the work, in some jurisdictions it has been held that A may claim extra compensation for his services. If a partner makes payments and incurs liabilities personally while acting for the partnership, then the others must indemnify him for this. Each partner is an agent of the others in the conduct of the firm's business, and the partnership is bound by all contracts made by a partner within the scope of the business.

POWERS OF A PARTNER. — (1) He can purchase any goods dealt in by the firm or usually employed in such a business (but not other goods; a partnership in the hardware business would not have any implied power to buy groceries—so if one member of such a partnership purchased, in the firm name, some groceries, the partnership would not be bound); (2) he can sell or mortgage any personal property of the firm (but he cannot sell real estate belonging to the firm); (3) he can receive payment of debts due the firm; (4) he can give receipts; (5) he can engage agents and employees for the firm; (6) he can borrow money on the firm's credit; (7) he can make, accept and endorse bills and notes in the case of a trading firm (a firm that buys or sells) but not in the case of a non-trading partnership (such as a hotel firm or a law firm). A partner cannot: (1) Assign the

partnership property to anyone else in trust for a creditor or even for all the creditors; (2) dispose of the firm's good will; (3) dispose of all the partnership's property at one time, unless it consists only of merchandise; (4) bind the firm by a contract of guaranty of his own or anybody else's debt (unless this is the business of the firm); (5) do any act that would make it impossible to carry on the partnership's ordinary business; (6) bind the firm by a deed. Since each partner is an agent of the others he must not make any secret profits while acting within the scope of the partnership business. As each partner is an agent of the firm for the purpose of the firm's business, his acts apparently made in the interest of the firm will bind the partnership, unless: (1) He has no authority to act; or (2) the person with whom he deals has knowledge of this lack of authority. A third person is held to know of this lack of authority when: (1) He actually knows it; or (2) knows other facts from which an ordinarily prudent person would come to know it. The relationship of partners to third parties will also be governed by each partner's power to make contracts, etc. Each partner is liable jointly and severally with the others for all the debts of the partnership.

WHAT ARE THE RIGHTS OF CREDITORS AGAINST A PARTNERSHIP?—A partner is liable to creditors to the extent of his whole fortune. The creditor's action must be against

all the partners, but if he recovers judgment he may collect the entire amount out of the individual property of one partner, and is not bound to try to collect it out of the partnership property. Of course, the partner whose property was thus taken could sue the others to make them repay him. Suppose the creditor had proceeded against the partnership property but it was insufficient to pay his claim. He could then proceed against the individual property of the partners to collect the balance. One partner will be liable for the whole debt if the others are insolvent. (The points of law covered in this paragraph are not uniformly established; there are some authorities holding otherwise.)

DISSOLUTION OF PARTNERSHIPS. — A partnership may be dissolved for many reasons and in many ways. The partners may agree to end the partnership. If the partnership was created for the performance of some specific act or acts it will be terminated by performance. If the partnership was to exist for only a specified period, it will be terminated when that time expires. Any partner may retire whenever he wishes, thus ending the partnership. Of course, since a partnership is a contractual relation, a partner thus retiring will be liable for damages to the other partners if the firm was to last a specified period and he withdraws before that period has expired. The death or permanent incapacity of one of the

partners will terminate a partnership. A change in the law may cause the partnership to be dissolved. After dissolution no partner can act for the partnership, except to wind up its affairs or complete previous transactions.

JOINT-STOCK COMPANIES.—A joint-stock company resembles a large partnership, in which the shares of the partners are represented by stock, just as in a corporation. It is like a partnership in that each member is liable, jointly and severally, for the full debts of the company. But unlike a partnership, the death or retirement of one shareholder will not dissolve the company. It is also different from a partnership in that a shareholder is not an agent of the company, unless properly elected or appointed to be such.

CORPORATIONS. — A corporation is a body which the law has artificially created. It has rights and duties entirely distinct from any or all of the persons who may own shares in it. There are special rules for banking, insurance and public service (street railway, etc.) corporations. Corporations are formed by complying with the laws of the State, which usually require the signing of articles of incorporation by the formers (these articles state the name, purposes, amount of capital stock, location of principal business office, period of duration, etc.), and the issuance of a certificate of incorporation (charter) by the secretary of state, after all taxes and fees required have been paid. Corpora-

tions have power; (1) To control the name it has adopted and a right to that name; (2) to sue and be sued; (3) to acquire, hold, use and sell such property as the purposes of the corporation (as stated in the articles of incorporation) may require; (4) to make by-laws not inconsistent with its purposes. It has numerous other rights but the above are the most important.

CORPORATION STOCK AND DIVIDENDS.—A corporation's stock is represented by certificates. These certificates are often pledged as collateral for loans. Stock is either "preferred" or "common." The preference is usually one as to dividends but may be merely as to assets on dissolution or in voting powers. Dividends are paid on preferred stock before the common stockholders receive anything. The most common way is to give the "preferred stock" the first claim upon earnings up to a certain per cent. Thus the preferred stock may state that it is entitled to receive 8% per annum before the common stock receives anything. Usually, preferred stock sells higher than the common, but if the corporation's earnings are so big that the common stock receives a higher dividend than the preferred, then the common stock will quite likely sell at a higher price. Stock may be transferred from one person to another. A voting trust is an arrangement by which some or all of the stockholders transfer their shares to trustees, who have stock certificates made out to

themselves as trustees. The trustees thus have the right to vote, while the real owners get whatever dividends are declared. The directors may declare dividends, if they have been earned, at their

POWER TO VOTE STOCK—PROXY

Know all Men by these Presents, That I,

.....

do hereby constitute and appoint John Rice, George Laight and Harry M. See, or either of them, Attorney and Agent for me, and in my name, place and stead, to attend and vote as my proxy at the (state whether annual or special meeting) meeting of the Stockholders of.....TRUST COMPANY, to be held on Wednesday, January 17, 1917, and at any and all adjournments thereof, with full power and authority to act and vote for me in all respects at the said meeting and at any and all adjournments thereof, for the (here state purpose of meeting), and upon all other business which may properly be brought before the said meeting, according to the number of votes which I should be entitled to vote if then personally present.

In Witness Whereof, I have hereunto set my hand and seal this.....day of ....., one thousand nine hundred and seventeen.

..... [Seal]

Witness:

.....

own discretion, and will not be interfered with by the courts in this respect unless they act fraudulently or oppressively. After the directors have declared a dividend the corporation owes it as a debt to the stockholder, who can sue the corporation for the amount due. The stockholder has the right to vote at the meetings of the corporation. He can usually vote by proxy if he desires. This means authorizing some one else to vote his stock for him.

This document does not have to be acknowledged before a notary public, but it should be witnessed.

MANAGEMENT OF CORPORATIONS.—The business affairs of the corporation are managed by a board of directors, not fewer than three, each of whom must be a stockholder. They are elected by the stockholders and their terms, etc., are prescribed in the articles of incorporation. They are the general agents of the corporation; they may issue and sell stock; declare dividends; appoint or elect officers to manage the business of the corporation and act as its agents; make loans; execute mortgages on the corporation's property; buy property needed; and in general perform all such duties as the by-laws and charter given by the State permit. This includes not only those specifically stated but those necessary to carry out the provisions of the by-laws and charter. The directors and officers of a corporation cannot legally engage in ultra vires acts, that is, acts beyond the

FORM FOR MEETING OF DIRECTORS FOR ORGANIZATION OF NEW BOARD

FORM FOR MEETING OF DIRECTORS FOR ORGANIZATION OF NEW BOARD

(City or town).....(date)

A meeting of the newly elected Directors of the .....Bank of ..... was called to order by the Cashier immediately after adjournment of the annual meeting of the stockholders, it appearing that

Messrs. .....

.....

.....

.....

.....

.....

had taken the prescribed oaths of director, and were present at this meeting.

On motion, duly seconded, Mr..... was elected President at a salary of $..... per annum.

On motion, duly seconded, Mr..... was elected Vice-President at a salary of $..... per annum.

On motion, duly seconded, it was

RESOLVED, that the Directors be paid $..... for each attendance at Board Meetings and $..... each for services on committees.

(Here record any other business that transpired.)

There being no further business, the meeting on motion adjourned.

scope of the corporation's charter powers. If they exceed, or attempt to exceed, these powers, the stockholders or creditors may apply for an injunction to restrain them. This would be so, even if the majority of the stockholders consented to the violation, for a minority may always insist that the limits of the charter powers be observed. If neither of the parties to an ultra vires contract has started to perform his part the courts will not compel him to do so. In most courts it has been held that if either party to an ultra vires contract has done his part the other party will be compelled to perform. If both parties have performed the courts will let the matter remain as they find it. The directors are bound to exercise reasonable care in the conduct of the corporation's affairs, and are liable for negligence, dishonesty, or breach of trust (for they are in a position of trust in their relation to the stockholders).

CORPORATION STOCKHOLDERS.—Unlike partnerships and joint-stock companies, the members of a corporation (its stockholders) are not liable individually for the debts of the firm; but they are liable to the corporation for any unpaid part of their subscriptions. Thus, A agrees to buy ten $100 shares, but pays only $400. The corporation can compel him to pay the other $600. Or the creditors might compel him to pay the $600, for it is a sort of fraud on the creditors to advertise capital stock of $100 a share, presumably paid in

cash or in property of equivalent value, and then to find that only $40 a share has been paid. Statutes may make stockholders liable for an additional amount, over and above the face value of their stock. A, above, might, if the statutes so provided,

FORM OF MINUTES FOR DIRECTORS' MEETING

FORM OF MINUTES FOR DIRECTORS' MEETING

(City or town)....., (date).....

The regular meeting of the Board of Directors of the ..... Bank of..... .....was held at their banking house at.....o'clock.....(date) with the following members present, viz.:

Messrs. .....

.....

.....

.....

Minutes of meeting of.....were read and on motion approved.

A statement of the bank at the close of business .....was submitted to the directors.

All loans and discounts from.....(date) to.....(date) inclusive, were read to the directors (or were submitted to the directors) and on motion duly seconded were approved.

(Here record any other business that transpired.)

No further business being presented, the meeting on motion adjourned.

have to pay another $100 on each share of stock, if the corporation property is not sufficient to pay the debts of the corporation. This is usually the case in a bank and is known as the "stockholder's double liability."

HOW CORPORATIONS ARE DISSOLVED.—A corporation is dissolved by the expiration of the time for which it was chartered. It may be dissolved by a decree of the court for various causes, including the following: Non-use of its franchise; misuse of its franchise; failure to perform some duty it should have done before it received its charter, such as a failure to file its articles of incorporation; non-performance of some subsequent duty, such as rendering reports to the secretary of state when required; violation of some law, such as the anti-trust law; failure to pay taxes; or insolvency. When a corporation becomes insolvent the court may, if the directors, bondholders or general creditors request it, appoint a receiver, who is an officer of the court, and who takes entire charge of the corporation's property and business until it can be dissolved or reorganized. After all the debts and claims have been paid, if any assets remain they are divided among the stockholders in proportion to the amount of stock they own.

BILLS OF SALE.—A bill of sale is a paper which conveys an interest or right in personal property from one party to another. No special form is necessary; the only thing necessary is to

show that one party has intended to transfer his property to the other party.

SHORT FORM OF BILL OF SALE

Minneapolis, Minn., June 14, 1916.

I have this day sold to James Allen, one Ford automobile, one Indian motorcycle, and one Winton automobile.

GEORGE STEWART.

The above form is very brief, but answers every purpose and is binding. The usual (but more formal) form of a bill of sale is as follows:

ORDINARY FORM OF BILL OF SALE

Know all Men by these Presents, That I, George Stewart of Minneapolis, County of Hennepin and State of Minnesota, in consideration of Three Thousand Dollars, to me paid by James Allen, of the same place, have bargained and sold to James Allen, the following goods and chattels, to wit: one Ford automobile, one Indian motorcycle, and one Winton automobile.

In Witness Whereof, I have hereunto set my hand and seal, this 14th day of June, A. D. 1916.

Signed, sealed and delivered in presence of .....[Seal]

.....

LEASES.—Leases are contracts giving the possession of real estate to one party, but keeping the ownership in the original owner. It is really a contract whereby one party becomes the tenant and the other the landlord. Thus, A wishes a certain lot of ground for a factory site, but does not wish to buy it. So he goes to the owner, B, and they agree that for a rent of $5,000 a year A shall have the use of the land for ten years—this contract is called a lease; the owner is called the landlord or "lessor," while the person holding the land is the tenant or "lessee." The consideration in such a contract is known as rent, and the valuable right to use the property is called the "leasehold." No particular form is required to create a lease, which may be oral or written. The agreement may be either expressly stated or implied from the conduct of the parties. By the Statute of Frauds all leases for more than a specified number of years must be written. A seal is not essential to the validity of a written lease, even if the lease is required to be in writing. Unless it is specifically stated otherwise, either the landlord or tenant may assign his interest in the lease without the consent of the other. The tenant may sublet to a new tenant; thus, A rents a farm from B, and rents it to C for a period of years less than the lease runs. A's lease is for ten years. If he assigns the lease to C, the latter gets the farm for the entire period (or unexpired part). A would still be liable for

the rent and any other agreements he may have made with the landlord. If he had rented the farm for seven years to C (less than the full term, or less than the unexpired portion) he would be subletting his lease. A lease may be terminated by: (1) Mutual agreement; (2) some other act of both parties; (3) default or breach of either party; (4) by its terms (such as the expiration of the term or the occurrence of a stipulated event; (5) destruction of the subject-matter; (6) by operation of law; (7) proof that the lease was induced by mistake, fraud or duress (it is not void, but only voidable in such a case); (8) the eviction of either party by a superior title (thus, if A rented property to B that really belonged to C, the lease would be terminated when C proved his title).

MORTGAGES.—A mortgage may be defined as an estate created by a conveyance, absolute in form, but intended to secure the performance of some act, such as the payment of money or the like, by the grantor or some other person, and to become void if the act is performed agreeably to the terms prescribed at the time of making such conveyance. Thus, A borrows $5,000 from B, giving B his promissory note. For B's security he also gives B a mortgage on a piece of property he (A) owns. This mortgage states that if A does not pay the promissory note, then, after fulfilling certain formalities, B can possess himself of the property which is described in the mortgage. Certain

property is secured to the lender in case the borrower fails to pay. The mortgage must be signed, sealed, witnessed, acknowledged (statement by the proper officer, such as a justice of the peace, notary public, or other officer empowered to take acknowledgments that the maker has appeared before him and acknowledged the instrument to be his wilful and intended act, or words to that effect, the exact language used differing in the various States), delivered by the borrower (the "mortgagor") to the lender (the "mortgagee"), and accepted by the lender. It should also be recorded (that is, placed on record in what is called the Registry of Deeds Office at the county seat) in order to prevent a dishonest borrower from giving another mortgage on the same property, which might be recorded ahead of the first one given and thus have prior rights. No particular form is required for the defeasance clause. Any deed which shows by its form that it was issued to secure the payment of a debt will be held to be a mortgage, and, in some jurisdictions, oral testimony will be admitted to show that deeds are not absolute conveyances but merely secure the payment of money. Thus, in some States, the defeasance clause could be proved to exist by oral evidence, even though the rest of the deed is all in writing. In some States the lender's interest can be transferred by assignment; in other States his interest can only be transferred by deed. Second mortgages and other sub-

sequent mortgages may be placed on the same piece of property. Suppose A issues a mortgage to B and then another to C on the same piece of land. He fails to pay C, who may foreclose (take steps to have the property sold to pay the debt due him). But B's claim would have to be satisfied first. If a borrower is married both he and his wife must sign the mortgage. Mortgages are often given to banks to secure loans made. There is a clause inserted in some mortgages which gives the lender the right to sell the property securing the debt, if the debt is not paid when due. This saves the lender the trouble of court proceedings to prove his right to sell the property.

DEEDS.—A deed is a document used to transfer the title of real estate from one person (the "grantor") to another (the "grantee"). The essentials of a deed have already been mentioned. They are the signature and seal of the person giving the deed; its delivery to the grantee (the person to whom the deed is given); its acceptance by the grantee. The deed does not have to be dated, and unless required by statute it does not have to be witnessed (signed by a disinterested person who saw it executed). Since many States require by statute that a deed be witnessed, it is a safe procedure to have it done. As between the parties themselves acknowledgment is not necessary; but it is usually required by statute before the deed may be recorded. The wife of a married man

must sign the deed. In a "quit-claim deed" the person giving it does not hold himself responsible for any defects in the title of the property; that is, he only transfers the rights he has in it himself. In a "warranty deed" the person giving the deed guarantees that there are no defects in the title to the property, and should any defect later be discovered the acceptor of the deed can recover from the grantor. If there is a mortgage on the land when the deed is made the purchaser is bound to recognize the mortgage as a valid charge against the land. That is, A gives a mortgage on a piece of land worth $5,000 to B, to secure a $2,000 debt. A then sells the land to C. A fails to pay his debt to B, who forecloses. The property is sold for $5,000, and C would be entitled to the $3,000 remaining after B's claim is satisfied. If C sold the property to D, D would then occupy the position of C.

GUARANTY AND SURETYSHIP.—A contract of suretyship is an agreement in which one person agrees to answer for the debt, default, or miscarriage of another. A contract of guaranty is a promise to pay such debt, etc., if the party first liable to pay or perform fails to do so. Under the contract of guaranty the guarantee (the person to whom it is given) must try to get the principal to pay or perform and use reasonable diligence to get him to do so; in a contract of suretyship the surety (the person making the contract) is

liable absolutely if the principal does not pay or perform, and the creditor does not have to make any demand of the principal, but can at once proceed against the surety. But in many of their features both guaranty and suretyship contracts are alike. The offer to become a surety or guarantor must be accepted; acting on the offer is usually considered a sufficient acceptance. It must be in writing. In general, all the elements required in other contracts must be present. No particular form is required. The person to whom the contract is given must disclose all material facts within his knowledge that might affect the risk that is taken by the guarantor or surety. If the principal defaults no notice need be given to a surety to render him liable; but a guarantor must be given notice: (1) When the contract states that it is to be given; (2) when he would be damaged if not given notice; (3) if the amount for which he is bound is indefinite; (4) if the guaranty is conditional. If the guarantor or surety pays the debt he has a right to any claims the creditor may have; thus, if the creditor had the principal's promissory note or a mortgage he would be required to deliver such instruments to the person who has paid the debt. This is termed the right of subrogation. If there are two or more joint guarantors or sureties and one pays the entire debt he can make the others pay their share. This is the right of contribution. Who pays the debt is entitled to reimbursement.

FIDELITY BONDS. — Persons holding positions of trust or responsibility are frequently required to give a bond (usually executed by a person or persons financially responsible or by a company making a business of fidelity insurance). A bond of this kind is a contract whereby the insurer, for a valuable consideration, agrees, subject to certain conditions, to indemnify the insured (the employer) against loss consequent upon the dishonesty or default of a designated employee. A person with good habits and good record can usually obtain, without much difficulty, from a surety company, a bond of five or ten thousand dollars by the payment of a small annual sum.

INSURANCE POLICIES..— Insurance is a system of distributing the losses of a few persons among a large number of persons. Thus, 5,000 persons might take out insurance policies, each paying $100 a year, making a total income of $500,000. If 100 persons die (assuming it is life insurance) and each has a policy of $5,000, the $500,000 will be consumed, and the loss of 100 have been distributed among 50 times that number. Actually, of course, the insurance company will have something left, if their risk tables have been carefully prepared, and if no extraordinary disaster, such as a severe earthquake or famine, has occurred. Almost every conceivable risk may be insured: Life, marine, fire—these are the more common; but there are companies that insure against tornadoes,

steam-boiler explosion, plate glass, burglaries, injuries, automobile theft or lawsuits, defaults or embezzlements, etc. The insurance policy is a contract, and the premium paid is the consideration. Lawful contracts of insurance cannot be made unless the person paying the premium has an insurable interest in the person or thing insured; thus, a baseball club may insure the lives of its players, but, probably, would not be allowed to insure the life of an opera singer. All the above kinds of insurance are subdivided into many classes; for instance, life insurance may be endowment, straight life, or term. Insurance policies having a "surrender value" may be pledged, and such assignment duly recorded on the books of the insurance company, as collateral for a loan, if they are properly assigned to the lender. By "surrender value" is meant the sum the company agrees to pay to the holder of the policy when he surrenders it (there is no such value unless the policy distinctly provides for it). The sum that will be paid is based on the policy reserve and is less than the amount paid in as premiums. The person obtaining the policy must exercise entire good faith, and not conceal any material facts. If the warranties in a policy are broken the policy may be avoided if the other party wishes.

CHAPTER IX

Bank Departmentization

DUTIES AND RESPONSIBILITIES.—Subject to governmental authority—National or State, according to their respective charters—the management of any bank is vested in its Board of Directors. Such directors are elected by the stockholders. The directors elect the officers, a president, a vice-president, cashier and assistant cashier, who are the executive heads of the institution and are charged with the duty of administering its affairs. The number of vice-presidents and assistant cashiers may depend upon the size of the bank. The directors may also appoint any committees—such as a discount committee and an examination committee—that the business of the bank may seem to require. According to the character of their duties and responsibilities, bank officers and employees may be classified as (1) executives, (2) tellers, (3) bookkeepers. Whenever it becomes necessary, on acount of volume of business, to divide the work in a bank into divisions, each employing a group of clerks, such divisions are organized into departments having a department head, who is usually a teller, a head bookkeeper, or perhaps a junior officer. In the very large banks the executive staff is itself organized into groups, and there may be a vice-president and one or two

assistant cashiers in charge of each important department. The work of a department in a large bank is nothing more nor less than the work of a single man in a small bank apportioned among several men. The departments into which a sizable bank is ordinarily divided are as follows:

(1) Receiving Teller's Department (Teller)—Receives deposits. Distributes checks to bookkeepers and other departments. Prepares exchanges for clearing house. Turns cash over to the paying teller at end of day.

(2) Transit Department (Teller—This is a subdivision of the receiving teller's department and may be known by other terms, such as correspondence, foreign check, miscellaneous check or country check department. Assorts checks payable out of town, endorses them and lists them on letters addressed to other banks. Gives totals of outgoing or remittance letters to general ledger bookkeeper at end of day.

(3) Paying Teller's Department (Teller)—Pays or certifies checks. In charge of the signature book or cards bearing the authorized signatures of all depositors. Ships currency. In charge of the vault cash.

(4) Note Teller's Department (Teller)—Collects notes and drafts due at the bank or elsewhere in the city. Usually in charge of the runners or messenger department, which is a subdivision.

(5) Collection Department (Teller)—Collects

notes, drafts and other "time" items when payable out of town. Credits accounts of depositors when collections are advised paid.

(6) Loan or Discount Department (Executive)—Receives notes submitted for discount or makes loans. Figures discount and interest. Has charge of collateral securing loans.

(7) Credit Department (Executive)—Secures and collects information relating to borrowers. Checks statements submitted by them. In charge of credit files, which contain information as to the reliability, business habits and financial strength of borrowers.

(8) Analysis or Statistical Department (Executive)—Usually found in city banks. Analyzes the accounts of depositors to determine which are profitable and which are losing accounts. Makes monthly reports to officers. In charge of statistics relating to the bank's accounts and matters in which the bank is particularly interested.

(9) General Ledger Department (Bookkeepers)—Keeps the general or control accounts of the bank. Makes up the bank's statement of condition.

(10) Country Bank Account Department (Bookkeepers)—Confined to city banks. Keeps the accounts of other banks.

(11) Individual Ledger Department (Bookkeepers)—Keeps the records of the balances of individual depositors. May be subdivided as to kind of accounts (savings, dealers), in addition to

ordinary alphabetical division. May balance pass-books or there may be a separate department for this purpose using the statement system. Figures interest on accounts.

(12) Auditor's Department (Executive)—Responsible for the settlement of the various departments. Reconciles the accounts with other banks. Certifies interest calculations.

In addition to these departments, there are others to be found either in very large banks or even in small banks operating special features. Among the first might be noted the coupon department, exchange department, purchasing department, filing department, interest department, new business department, etc., all of which terms are self-explanatory. Among special departments may be mentioned the bond department, safety deposit department, special deposit department (securities and valuable stores with the bank, but not placed in private boxes. In trust companies there is the trust department, which may have a complete independent organization of its own, with officers, bookkeepers and other clerks. This department has charge of the trust accounts.

RECEIVING TELLER'S DEPARTMENT.—A bank teller is a senior clerk who deals with the bank's customers — chiefly depositors — in daily transactions across the counter. In very small banks one man will act both as receiving teller and paying teller, as well as note teller and collec-

tion teller; he is the teller, and he may be an official as well. In many large banks, particularly in the West, an arbitrary alphabetical division is made on the accounts of the bank and each group is treated as a separate unit. Under this plan, it is as if there were several small banks operating under one roof. Each teller acts as both paying and receiving teller for his own group, to which bookkeepers are also assigned. This plan has several advantages. The depositors are not often held up in a single long line on busy days; the teller is not put to the strain of knowing the faces and signatures of all the depositors; the money can be handled more easily, and if differences should occur they are confined within limits. Whether the bank employs a separate receiving teller or not, there are certain duties and responsibilities peculiar to the position. The principal business of the receiving teller is to receive deposits. Responsibility of no mean order rests upon the teller, because he acts as the agent of the bank in the relation established between the depositor and the institution. He must be on his guard at all times. His first care is to assure himself that the deposit is intended for his bank. Many people have two or more bank accounts and sometimes confuse the pass-books. The amount of deposit is entered in the pass-book as a receipt. In a savings bank the pass-book is more than a receipt—it is a voucher or evidence of contract between the bank and the depositor.

If the bank is one that deals with a large number of depositors who make deposits of any size or quantity of checks, the teller will merely satisfy himself that the checks are endorsed by the bank's customer, enter the amount in the pass-book and examine or prove the ticket later. This prevents a long line of depositors from becoming impatient of delay. If errors are found they are reported by telephone, and since the bank will have been careful in the first place as to whom it accepts as depositors, there is but slight risk that an error may not be satisfactorily adjusted at the end of the day, without loss to the bank. But whether it is done first or last, by the teller himself or by his assistants, each deposit is subjected to the same process of proving. The cash is counted and care taken that there are no counterfeit bills or coins included. The checks are examined to see that they are properly listed and endorsed. In cities where the banks charge their customers exchange on out-of-town checks, the receiving teller sees to it that proper amount of exchange is deducted. As for checks on his own bank that may be deposited, the receiving teller is governed by the same rules that apply to the paying teller; that is, he must know the signature and also be certain that the check is "good." Finally, he proves or tests the addition of the ticket. The total is listed on his blotter or scratcher and the ticket is then given to the bookkeeper.

The various items that make up the deposit are

then ready for distribution. The checks on the bank itself go to the bookkeepers; checks on other banks in the same town go either to the clerks making up the exchanges for the clearing house or to the runners' or messengers' department for presentation.

TRANSIT DEPARTMENT. — Out-of-town checks go to the "transit department," where they are assorted as to place payable and forwarded for collection and returns. If the bank is small, the receiving teller may handle all these various checks in his own department, but ordinarily they will be distributed to other departments which are really subdivisions of the receiving teller's department. The most important of these departments in point of size and responsibility is the transit department. Let us consider such a department in a city bank. It so happens that out-of-town or "country checks" can be handled and collected more economically in quantities, hence country banks and many city trust and savings institutions send these items to a city commercial bank which may make a specialty of collecting them. The receiving teller, theoretically at least, will receive these items through the mail, although when so deposited they actually do not leave the hands of the transit clerks who open and prove the incoming remittances or deposits. The teller adds the figures of the mail deposits to those of counter or "window" deposits. The transit clerks assort the checks geographically, placing

TYPICAL PAYING TELLER'S SETTLEMENT

Individual deposits		$152,136.07	
Deposits from other banks		89,422.12	
Receipts from note teller		1,234.16	
Receipts from paying teller		972.17	
Receipts from exchange teller (drafts sold)		2,500.00	
Total receipts			$246,264.52
Checks charged to individual ledgers		$98,422.10	
Drafts charged to general ledger		10,102.50	
Out-of-town checks to transit department		47,203.10	
Exchanges from clearing house		50,522.25	
		$206,249.95	
Cash to Paying Teller:			
Gold	$10,122.00		
Legal tenders	3,225.00		
National bank notes	5,000.00		
Gold certificates	3,700.00		
Silver certificates	12,522.00		
Silver dollars	5,221.00		
Fractional	224.57		
		40,014.57	$246,264.52

together checks that are payable in the same part of the State or country. They are then endorsed with the bank's stamp and listed on letters addressed to the bank's correspondents. At the end of the day the totals of the outgoing letters must equal the total of the checks which are charged to the transit depatrment by the receiving teller. The bookkeeper charges the total of each individual outgoing letter to the bank to whom sent, and the grand total increases the general ledger item "due from banks" by that amount.

RECEIVING TELLER'S SETTLEMENT.—The receiving teller's settlement is quite simple. He begins the day without any funds. As deposits come in he lists them as to totals on a scratcher, writing the name of the depositor opposite the amount. At the end of the day the totals of the checks he has received and charged to the different departments of the bank according to place of pay ment, plus the cash he holds, must equal the total deposits for that day. Settlement being made, he then turns his cash over to the paying teller, who usually does not count it until the next morning. In many banks the receiving teller acts as the "clearing house" for the other departments. For instance, checks on other institutions will be cashed by the paying teller, or given to the loan clerk for payment of notes, or paid to the loan clerk for loans, or the bank's draft on another city may be bought with a personal check. All these depart-

ments may give over such receipts to the receiving teller, who adds the totals to his individual deposits in making his settlement. Charge and credit tickets would be handled similarly. The student should keep it clear that such work is incidental to the business, and it does not follow that because it may be the note teller, paying teller or some other clerk who does this internal accounting for various kinds of receipts, that his bank is "different."

"BATCH" OR "BLOCK" SYSTEM.—The general adoption of the "batch" or "block" ssytem has been a boon to the accounting done by the receiving teller, and this plan is now in operation in all modern banks. Under this system the correctness of the deposit ticket is not tested as to listing or addition when received. Instead, the ticket is handed to an assistant, who assorts the items in groups; for example, self-checks, clearing house checks, non-clearing local checks, out-of-town checks and money. Further division may be made of any of these groups if the size of the bank warrants. The items are then listed on an adding machine in parallel columns, each of which is headed by the name of the department which will receive the checks. The totals are then "picked up" or recapitulated, and must agree with the total of the ticket, which is listed in another column on the sheet and the name of the depositor added opposite. If the deposits are small, several are combined on one sheet. At the end of the day a

total is made of each column on all the sheets or "blocks," and these being recapitulated must equal the total deposits, which is the teller's proof. The advantages of this plan are many. No effort or time is lost in the original proof of the ticket. As the items are listed in separate columns a total is arrived at which not only proves the ticket but gives separate totals which other departments use to prove their own work against. If differences occur they are segregated into groups and thus can be more easily located.

TYPICAL DISTRIBUTION SHEET USED IN THE "BLOCK" SYSTEM

Country Checks	City Checks	Checks on this bank	Cash
$162.29	$29.16	$110.28	$116.22
15.27	4.22	92.15	
222.12	.87	47.16	
83.33	926.12	523.06	
1,000.00		10.00	
	$960.37		
$1,483.01		$782.65	
	Recapitulation	Deposits	Depositors
	$1,483.01	$1,826.10	Smith & Co.
	960.37	4.22	John Doe
	782.65	1,511.93	S. Williams
	116.22		
	$3,342.25	$3,342.25	

PAYING TELLER'S DEPARTMENT.—The paying teller's duties are the direct opposite of the receiving teller's. It is often said that the paying teller has the most important position in the bank because on him falls the responsibility of paying out the bank's funds. It is not questioning the measure of his responsibility to point out that it is not the bank's funds but the depositors' money that he is called upon to pay. If this money is paid to the wrong person the bank is liable to pay it again to the proper payee, and if the teller pays out some of the bank's money as well as the depositor's —in other words, permits an overdraft—then again the bank loses. This teller, therefore, stands between the bank and loss. Even more than the receiving teller, his personality, his mental and physical make-up must leave nothing to be desired. He must be courteous, patient, alert, well informed as to business methods in general, keen and resourceful. Above all, the teller, whether paying or receiving, must know his own bank thoroughly. Tellers almost invariably are graduates of many years' experience in the bank.

When a check is presented for payment at the window the teller must be assured (1) that the signature of the drawer is genuine; (2) that the person presenting the check is the payee or, if the check has more than one endorsement, that such endorsements are all present and the person who asks payment is the last endorser; (3) that the

balance of the drawer is sufficient to cover the amount of the check; (4) that the check is not dated ahead; (5) that there is no order from the drawer on file to stop payment.

When a check is presented for certification the paying teller takes the same precautions with respect to the genuineness of the signature, balance of the drawer and the question of payment being stopped as if the check were presented for payment. The matter of endorsement will be taken care of when the certified check is finally presented for payment. Checks are certified by writing or stamping across the face "Certified. Good when properly endorsed." The date and name of the bank, with the signature of an officer or teller, is added. The account of the drawer is charged at once and the effect is that the bank thereupon assumes the liability for the payment of the check.

VAULT CASH.—The paying teller is the guardian of the bank's funds. He usually has custody of the vault cash. He sees that the supply of money in various denominations is at all times sufficient for the needs of the customers and is properly arranged for quick handling. Money paid out is counted twice before leaving his hands, but in order to avoid one handling while the line before his window waits, he will have bills crossed in piles, or under bands, containing so many one's, two's or five's as the case may be. Coins are neatly piled or rolled in sealed wrappers. This work is done

TYPICAL PAYING TELLER'S SETTLEMENT

		(Itemized as to denominations)	
From yesterday's settlement:			
Vault cash		$58,222.00	
Paying teller's cash		41,922.16	
Cash from receiving teller		40,014.57	
Cash from note teller		12,103.10	
Exchanges from clearing house		72,103.15	
Total receipts			$224,364.98
Charged to ledger, A to K		$44,622.10	
Charged to ledger, L to Z		31,203.15	
Charged to general ledger (bank accounts, etc.)		20,403.16	
Checks to receiving teller		4,322.79	100,551.20
Cash balance			$123,813.78
Vault Cash	$64,500.00		
(Changes in this item during the day might be noted on a separate sheet)			
Gold	$10,500.00		
Legal tenders	24,250.00		
National bank notes	7,550.00		
Gold certificates	5,000.00		
Silver certificates	4,772.00		
Silver dollars	6,278.00		
Fractional	963.78		
To next settlement			$123,813.78

by assistants during the day. The bulk of the vault cash is seldom disturbed. It is usually kept in an inner compartment requiring a duplicate key held by an officer. The teller has a record of the total of this money and of the denominations into which it is divided. The amount of counter or window cash which is brought from the vault to the cage each day is listed in the settlement book, and with this money the teller begins the day's work. During the entire day he is paying out cash for checks, or shipping it to out-of-town correspondents of the bank upon their written or telegraphic order. His settlement at the end of the day is even more simple than the receiving teller's. The amount of the checks he has cashed and handed to the bookkeepers (or, if they are payable at other banks, to the receiving teller), plus the amount of cash on hand, must equal the amount he began the day with. As soon as he has settled, he adds to his own cash the cash which is handed him by the receiving and other tellers, and this sum is then carried forward to begin the next day's work.

The settlement of a teller who is both paying and receiving teller is a combination of the two. The teller begins the day with a cash balance on hand. He adds to this amount the deposits, receipts for interest on loans, drafts sold, exchange, etc., received during the day. At the close of business the total of his cash on hand plus checks for other

banks and checks on his own bank (which have been cashed) must equal his total receipts.

NOTE TELLER'S DEPARTMENT.—Drafts on individuals must be presented to the drawee, either for payment or acceptance, and notes must be at the place where they were made payable on the day they are due. Banks undertake to collect these items for their customers and pass the proceeds to the credit of their depositors. This function is incidental to commercial banking, the bank acting as the agent of the owner of the paper to be collected. In small banks it is not unusual to see a brass sign displayed at the receiving teller's window reading "Pay notes here." Although they are not required to do so by law, all banks send notices to the makers of notes or the drawees of drafts that they hold the note or draft awaiting payment, and some one of the tellers or clerks is assigned the duty of receiving payment. As the bank grows, a separate department is organized for this purpose and a note teller is appointed. He is usually in charge of the messengers or runners. Instead of sending out notices the bank may render its customers better service by having its messengers present the items for payment at the place of business of the payer. The messengers also present checks for payment at banks not represented in the clearing house, collect coupons and return unpaid checks to depositors. It is necessary that they should exercise great care in all these transac-

tions, since for the time being they are the accredited representatives of the bank and the bank is bound by their actions.

The note teller keeps a register record of all the "time" items that are placed in his hands for collection. This record consists of the name of the payer, the endorser, or the owner of the item for whom the bank is making collection, the date of maturity, the amount, and whether the item is to be protested or not if unpaid. There may be other instructions, as, for example, a request for telegraphic advice of payment. A column is used to record the final disposition of the item, which in banking parlance is called "fate." Usually a separate register is used for drafts, because they may require particular care. They are often accompanied by bills of lading or other documents that are to be delivered only when the drawee has paid the draft. Drafts are often made payable "on arrival of goods," and the note teller keeps in touch with the drawee so that there may be no unreasonable delay after the goods covered by the draft have reached their destination.

In making his proof the note teller enters on one side of a sheet the name and amount of each note, draft or check which is to be collected on that day. As the items are paid he extends the amount in another column and opposite he makes a memo of the funds he has received. This memo is technically called the "satisfaction" of that par-

ticular entry. The total of the items thus "satisfied" at the end of the day must be equalled by the cash and checks which the note teller hands over to the paying and receiving tellers.

COLLECTION DEPARTMENT. — A subdivision of the note teller's department is the collection department, although some banks are organized with the latter as a subdivision of the transit department. The collection teller, as the head of the department may be known, is charged with the collection of notes and drafts payable out of town. These items cannot be listed with checks and cash items, but are entered on separate sheets. The same methods of bookkeeping and collection apply as with out-of-town cash items, except that credits and debits are made only upon receipt of advice that the items are paid. Checks and cash items, on the other hand, are credited to the depositors on the day of deposit, subject, of course, to final payment. That is, if the items are "not good" they will be returned and the account of the depositor will be charged. This plan is adopted for mutual convenience made necessary by the great numbers of checks that are deposited daily in every bank. If every separate item required a special advice of payment, and would be credited only upon receipt of such advice, banks would be compelled to increase the number of their clerks enormously.

Out-of-town collections are governed by the

same rules as city collections. The collection clerk or teller makes a register record of the name of the payer, the place payable, the endorser, and the amount, together with other instructions. Usually this record is entered on slips made with carbon copies, and the slips are filed in drawers or cases until advice is received. If the bank is notified by its bank correspondent that an item has been paid the slip is taken out and marked "Paid." It is then handed to the bookkeepers. Using the slip as a debit or credit memorandum, the account of the depositor is credited and the account of the bank to which the item was sent is debited.

The collection teller is responsible for the items entrusted to his care. He must see to it that notes reach the town where they are payable before maturity, that drafts are sent to responsible banks for collection, that all instructions sent with the items are fully obeyed and that correct and prompt advice of payment or dishonor is received.

LOAN OR DISCOUNT DEPARTMENT.—Loans and discounts are handled by an officer of a small bank, but in larger institutions a separate department has charge of the records and the mechanical details of the work. The discount teller gives the borrower credit for loans that have been approved by using cashier's checks for out-of-town borrowers and ordinary credit slips for own customers. In a sense, then, he is a receiving teller of a special form. The actual loaning of the bank's

money is always done by an officer of the institution, regardless of its size or kind. A kind of journal record is kept of the loans made each day. Sometimes this book is known as the "Offering Book," in which is entered every note offered for discount. Those not accepted, or undesirable loans, are stricken off this original book of entry. The loans made are transferred to the loan or discount register. This is usually a double-page book, the record extending across two pages. In columns of suitable width are entered the following records of each loan: Maker, endorser (or collateral), amount, where payable, when due, rate, discount, proceeds. This record may vary as to details. For example, one register may be used for both time and demand loans, secured or unsecured, etc., while other banks may find it advisable to use a separate register for each kind of loan, or, if a single register is used, further detail is provided for.

The loans are then posted on the Liability Ledger. This record consists of the "liability balance" of each borrower, either on notes he has signed or notes he has endorsed. His liability as borrower is kept in columns separate from his liability as endorser or surety. The first record may be used in accounting, since the sum of the balances due by all borrowers will prove the corresponding figures on the general ledger, while the figures showing liability as endorser or surety are useful chiefly for credit purposes. The loans are next

posted on the maturity tickler, which is simply a daily memorandum of loans as they fall due. This completes the records, the notes being then filed in a portfolio in the order of their maturity. Collateral is listed upon cards and then placed in a proper vault, or the collateral may be recorded upon the face of an envelope in which it is enclosed. Provision is made for keeping records of substitutions of collateral, and when the borrower pays the loan he signs a receipt for the collateral, which is returned to him.

CREDIT DEPARTMENT.—In a larger community it would be impractical, if not impossible, for the cashier, in addition to his other duties, to keep track of every local borrower and the bank may employ a "credit man," who specializes in credits. The next step is the organization of a credit department, usually in charge of one of the officers of the bank. The credit department collects and files every available bit of information concerning people or firms that borrow money. This material consists of financial reports, press clippings, personal interviews, statements of condition and, in fact, every item that has even a remote bearing upon the standing of borrowers. It requires technical training of a high order to properly classify and analyze this data, but the fundamental idea is to get down to the same knowledge of the true facts as our country bank cashier has at his command with respect to his neighbor.

Credit is based upon character or, as bankers put it, the "moral risk." A simple but practical definition of credit is "the ability to buy with a promise to pay." He who has "good credit" can command either goods or money because of the faith or belief that others have in his promise. The word "credit" is derived from the Latin "Credo," I believe. It is not only essential that the borrower have the ability to pay his note when it is due—he must also have the desire or inclination to pay. To be able to loan money wisely and to those who are entitled to it—in short, the ability to distinguish between a safe risk and an unsafe one—is the quality that marks the good banker.

BANK ACCOUNTING. — Bank accounting, like all other accounting, centres in the statement of condition. The statement of condition contains the general or controlling accounts of the bank, both resources and liabilities, and embodies such information as is required in official reports to governmental authorities, National or State, as the case may be. It would not be impossible, but it would be entirely impractical, to enter every figure directly on the statement of condition. We might imagine an enormous sheet on which the capital is entered as to the ownership of each share of stock. Instead of total deposits, the balance of each depositor would appear opposite his name. On the other side, instead of loans and discounts, there would be an itemized list of the loans with the

names of the borrowers. With such a sheet spread out over a floor space of great area, we might imagine the clerks crawling up and down the columns like flies, making debits and credits. This is, of course, absurd, but it is precisely what happens, except that the entries are made on books,

CONDENSED BANK STATEMENT

RESOURCES	
Loans and Discounts	$1,814,025.00
U. S. Bonds	80,500.00
Other Bonds, Stocks and Securities	167,500.00
Stock in Federal Reserve Bank	6,000.00
Real Estate, Furniture and Fixtures	40,500.00
Due from Banks	200,000.00
Cash and Sight Exchange	1,689,000.00
Due from U. S. Treasurer	3,500.00
Other Resources	6,000.00
	$4,007,025.00
LIABILITIES	
Capital	$100,000.00
Surplus	100,000.00
Undivided Profits	104,500.00
Dividends Unpaid	6,100.00
Circulation	60,000.00
Due to Banks	50,000.00
Deposits	3,572,425.00
Borrowed Money	4,000.00
Other Liabilities	10,000.00
	$4,007,025.00

loose leaves or cards, and the final results are posted on the statement of condition.

MEANING OF A BANK STATEMENT.—The accounts in a bank statement are classified as "resources" and "liabilities." "Resources" comprise what the bank OWNS (what it possesses with which to pay its debts) and "liabilities" comprise what the bank OWES. The creditors of the bank may be divided into three groups: (1) The stockholders, (2) the depositors, (3) the general public. The first group are inclined to examine the statement to determine if the bank is earning money, the second group satisfy themselves that the bank is safe, and the third group look to the Government for protection, since they have no voice in the management of the bank nor any choice in accepting their relation to the bank. The resources may also be roughly divided into three kinds: (1) loans and investments having a fixed maturity; (2) amounts due from other banks, usually payable on demand or subject to draft; (3) actual money or cash. There is also the bank building, and with this item there is included the amount of money representing the vault, furniture and fixtures. These various items all bear relation to each other and the trained observer is able to base an intelligent opinion on the condition of the bank and the sagacity of its officers by a study of the proportion of one figure to another. A complete analysis, however, is not possible except by com-

paring a series of statements covering a long period.

ANALYSIS OF LIABILITIES.—The principal liabilities of a bank are as follows:

(1) The first liability item of importance is the "capital." This should be large enough to give strength to the bank and enable the institution to accommodate the needs of its customers.

(2) The "surplus" also belongs to the stockholders. In the case of some banks a surplus fund is created at the time of organization by stock subscriptions at more than par. The purpose of the surplus fund is (1) to provide an increased working capital and (2) to establish a fund from which possible losses may be sustained without impairing capital.

(3) "Deposits" are of several kinds. The term "individual deposits" is by custom applied to deposits that are subject to check; that is, payable on the order of the depositor, this order being written on an instrument called a "check." Savings or time deposits are also due to individuals, but not subject to check; that is, the bank may require notice of withdrawal to be given. Certificates of deposit are written acknowledgments made by the bank that a deposit has been made and the bank will pay the amount named upon presentation of the certificate properly receipted on the back, or endorsed. Certificates of deposit may be payable either at sight or on a given date, and are known as

demand or time certificates respectively. Deposits made by one bank in another are sometimes called bank deposits, but such accounts are officially reported as "due to banks."

ANALYSIS OF ASSETS. — Turning to the assets or resources of the bank, the first classification of items consists of the investments. These vary as to kind and ratio to the other figures of the statement as between different kinds of banks. They will also vary in the same kind of banks but located in different sections of the country. The commercial bank must keep its assets liquid; that is, constantly turning or moving, because its depositors are making active use of their funds at all times.

(1) "Loans and Discounts," the largest investment item of the commercial bank, have fixed maturities and, therefore, the bank often buys bonds because they can be readily sold and converted into money in case of need. Bonds are sometimes called "secondary reserve" for this reason.

(2) The items "due from banks," "checks and cash items," "exchanges for the clearing house," are amounts due by other banks and are payable on demand.

(3) "Cash," actual money, usually classified as to kinds, is self-explanatory. This is the "till money" of the bank to care for currency needs.

(4) The building, furniture and fixtures are carried as a resource, usually at a figure less than

their actual cost. This is done not only as a margin of safety, but also because few banks would be able to sell their property at short notice for its full value.

DEBITS AND CREDITS.—The first principle in bank accounting, as in all other bookkeeping, is that for every debit there must be a credit and vice versa. In accordance with this fundamental theory the books must always be in balance. As we have seen with respect to the statement, every dollar of liabilities is accounted for by another dollar of resources. This is true of every bank. If the institution is large enough to be divided into departments, such departments are charged with all funds passing through their hands, and they must show on their records what has become of every penny. Similarly each clerk, bookkeeper or teller accounts at the end of the day for each item of cash he has handled. When he has done so he is said to have "settled," "balanced" or "struck a proof." Every bank clerk has had the experience of remaining at his desk until a late hour at night checking up his day's work searching for a difference of a few cents. Often he becomes embittered at what seems to him a tyranny when the small sum of money involved is considered. The reason he must settle, however, is not on account of the possible loss of ten cents, but because the most important principle in bank accounting is involved. "Accuracy first" is a motto that should be framed,

figuratively at least, upon the wall of every bank.

BASIC BOOKS.—The books used by a bank are of various kinds and their purpose is indicated by name.

(1) A "ledger" is a book used to keep a record of balances. To "post" means to enter in the proper columns either the debits or credits on the ledger, and the difference between them represents the balance either due by or to the bank. Most banks are doing away with bound books, especially ledgers, and substituting cards or loose leaves. This plan enables several men to work on the same records, which would be impossible if they were bound in a single book. Alphabetical division is also easier of adjustment and "inactive" accounts can be readily separated from "active" accounts. Totals of balances can be listed upon adding machines for proof more easily from loose sheets than from bound books. But whether bound or not, records of balances are kept upon ledgers.

(2) A "journal" is a book in which daily transactions are listed in regular order as to accounts, and the total debit or credit is then posted on the ledgers. Journals, too, may be loose sheets, so that they can be inserted in the carriage of an adding machine; indeed, machines have been invented upon which both debits and credits may be written and the machine will automatically subtract or add and print the new balance. The journal, then, is merely a subdivision of the ledger.

SUBORDINATE RECORDS. — A depositor wishes his account to be charged and the money paid to a named payee. The piece of paper upon which he writes this order is a "check." If he deposits money he writes the memorandum of the amount upon a ruled slip of paper and this is the "deposit ticket." Bookkeepers enter debit and credit records upon their journals directly from these items. Money, however, may change hands or from one account to another in other ways; by letter, telegram or other debit and credit advice. In such cases a "charge ticket" or "credit slip," as the case may be, is signed or initialed by an officer of the bank, and entry with full explanation is made upon a book, from which record the bookkeeper makes his entries. This book is known as a "scratcher," "tickler" or a "blotter." The terms mean practically the same thing. A book upon which a complete description of a negotiable instrument or transaction is made for a permanent record or for reference is called a register; for example, bond register, collection register, etc. All other books, cards, sheets of whatever nature are a part or subdivisions of such books. The records made by one clerk upon one set of books in a well-appointed accounting system go to check the records of another clerk upon a different set of books. For instance, the paying teller and the receiving teller will each keep a record of checks cashed or deposited payable within the bank. The

debit postings of the individual bookkeeper would agree with the teller's figures. Skillful accounting lies in making the fullest possible use of original entries, at the same time having a check on all figures to guard against either error or fraud.

GENERAL LEDGER DEPARTMENT.—The general ledger bookkeeper is the bookkeeper of the bank. It may be said that all other books and records are a part of the general ledger. Every transaction of whatever nature gravitates to this ledger. The keeper of the general ledger may be said to be the dealer in wholesale figures; the other clerks are the retailers. He has to do with totals of completed transactions; the tellers and other bookkeepers are concerned with the details. The accounts on the general ledger consist of the items in the bank's statement of condition, known as the "control accounts." The general ledger bookkeeper makes his postings at the end of the day or the first thing in the morning before the bank has opened for business. No matter how large the bank may be, this posting of debit and credit totals takes but very little time, and in small banks the cashier may do this work. More often the clerk who "runs" the individual ledger is also responsible for the general ledger. In large banks the head bookkeeper (as he is sometimes called) is given additional duties and responsibilities. He makes the daily calculation of reserve and keeps the record of the earnings and similar data. Most banks keep

a book which is known as the "daily comparative statement" book. In this book a record is kept showing the figures of each day side by side with the same items of that day the previous year or years. These statistics are of great interest and value to the officers and directors and often serve as a guide that will indicate what may be expected. With knowledge thus tabulated the bank is able to serve its patrons more intelligently, since by using the law of averages a reasonable forecast can be made and the needs of depositors and borrowers may be anticipated. The stock book, which contains the names of the stockholders and the number of shares held by each, may also be kept by the head bookkeeper.

COUNTRY BANK DEPARTMENT. — The general bookkeeper usually has charge of the accounts with other banks. These are kept just as the individual accounts are and are subject to the same kinds of debits and credits. In addition to the credit accounts, or those accounts which represent the balances of other banks, there are usually many debit balances, which in total are carried on the general ledger as "due from banks." As each day's letters containing checks are sent to correspondent banks, the amount of such checks are debited to these banks. As remittances are received in payment the accounts are credited. A daily record is kept of each account, known either as the "statement" or "account current," and at the end

TYPICAL INDIVIDUAL LEDGER SHOWING DEBITS, CREDITS AND BALANCE

Sheet No..... Account No.....

Name

Date	Checks in Detail	Total Checks	Memo.	Deposits	Balance

INDIVIDUAL LOOSE LEAF LEDGER USED WITH CHECK JOURNAL

.....In account with The Institute National Bank

Date	Debits	Credits	Balance

of the month this statement is ruled up and forwarded to the correspondent banks for "reconcilement." Since there are letters in transit, drafts not yet paid, collection credits, returned items and other entries constantly "in the air" between two banks that do business with each other, this reconcilement is necessary if the accounts are to be settled as of any given day. It is very interesting work and an example of the method used is given. We will assume that a city bank has sent a monthly statement to a country bank showing the actual debits and credits for the month and the balance due the country bank. The country bank would then fill out a reconcilement blank about as shown in the illustration and mail it to the city bank. The purpose of the reconcilement, as will be seen, is to account for the difference between the balances shown on the books of the two banks on the same date. Errors or omissions of debit or credit entries are then adjusted.

INDIVIDUAL LEDGER DEPARTMENT.—The individual ledgers are the books upon which the detail records of the deposits are kept. Such records consist of either debits or credits and the balance. Modern ledgers allow three columns to each account, one for debits, one for credits and one for the balance, although many banks still use the two-column ledger, the credits being posted beneath the balance, which is extended in red ink. Bound ledgers are gradually giving way to loose

sheets or cards, each account having a separate leaf or card. This plan is much more convenient, since closed or "dead" accounts can be eliminated and inactive accounts can be kept separate from those that are active. It is also easier to make alphabetical divisions of the ledgers when an increase of work makes it necessary.

While there are several bookkeeping systems employed by banks, they are all alike in principle, and vary only because the business of the customers warrants different labor-saving methods on the part of the bank For example, active commercial accounts require considerable posting of checks and deposit tickets daily and the balances are constantly changing. Savings banks, on the other hand, deal with a class of people who make deposits only at irregular intervals and withdrawals are also infrequent. We will discuss the methods usually employed in a commercial bank using the three-column, loose-leaf ledger.

The bookkeeper receives checks from both the paying and receiving tellers, although in some very large banks they come to him from the check teller, who assorts the checks as to the ledgers and examines the signatures and the endorsements. Sometimes the bookkeeper is held responsible for the payment of a check bearing a forged or incorrect signature or endorsement, but usually his liability in this direction is limited to "stop-payments." A good bookkeeper, however, whether

he is specifically charged with this duty or not, is always on guard against irregularities. Checks come in "courses" from the tellers; that is, at certain times during the day, after exchanges are received from the clearing house, or the morning mail is opened and at other fixed periods, batches of checks come into the bookkeeper's hands. He assorts them alphabetically and enters them upon a journal, which is usually a loose sheet that fits into an adding machine. A total of the checks of each depositor is struck and these totals are then posted in the debit columns against the proper accounts. There are ledgers in use which have an extra column for detail checks, so that no journal is necessary. As the bookkeeper posts he watches the balances to see that the accounts are not overdrawn. He must be extremely careful not to post checks to the wrong account. This is very apt to happen if the bookkeeper is careless, because nearly all banks have accounts of similar and sometimes identical names. If a check drawn by John A. Smith is refused as not good because the account has been apparently overdrawn by certain checks that should have been charged to John E. Smith, the bank is not only apt to lose a good account, but may even be liable to John A. Smith for whatever damage his credit has suffered.

Alternating with the posting of debits, the bookkeeper posts the credits or deposit tickets, which also run in "courses." In making credit entries

SPECIMEN RECONCILEMENT STATEMENT

To the TENTH NATIONAL BANK of New York:

We have received statement of our account showing balance due us, $10,926.30, which agrees with our books with the exceptions noted.

Your books show balance to our credit	$10,926.30	August 1, 1914.	
Our remittance letters to you in transit:		Drafts drawn by us not in your statement:	
July 29	1,627.10	No. 1624	$500.00
July 30	2,541.16	No. 1625	226.10
We charge, you do not credit.		We credit, you do not charge.	
Collection, July 16	50.00	Note, Jones, July 10	100.00
Retd. item, July 28	14.26	Our books show balance to your debit	14,332.72
	$15,158.82		$15,158.82

Yours truly,
FARMER'S BANK.

as much care must be observed as in posting debits, and for the same reasons. In addition to the deposit ticket entries there may be other kinds of credits. If the depositor has received a loan the bookkeeper receives advice of the amount from the loan clerk, and opposite the amount in the credit column he may place a mark, "L" meaning loan, "N" meaning note, or "D" meaning discount. If a collection item has been paid the credit will be marked "C." These marks are merely an abbreviated method of identifying entries, of assistance in the process of examining the accounts of the bank.

At the end of the day the bookkeeper puts all his checks together in alphabetical order and arranges the deposit tickets similarly. Most banks are now using the "statement system" of balancing pass-books. This work is done by a separate clerk or subdivision of the bookkeeping department. Each depositor has a separate sheet or statement on which are entered the daily transactions. This is sometimes called the "skeleton ledger," because its chief purpose is to show the daily balance of each account rather than the detail. Since all the checks and deposit tickets are posted the following day, and hence are available for posting without any delay, the statement clerk is able to handle many more accounts than the bookkeeper, whose work comes to him in relays. After the checks and tickets are entered on the statement they are filed

away, the deposit tickets remaining in possession of the bank and the checks being handed to the depositor at the end of the month. There was a time when the checks were also retained (as they still are in some foreign banks), but the custom has grown in this country to regard the endorsement on a check as a receipt in payment of a debt and therefore the rightful possession of the drawer. The completed monthly statements, showing the balance of each depositor, are compared with the ledger balances to prove the correctness of the amounts, and they are then given to the depositors. Under the pass-book settlement system the deposit entries in the book are added to the last settlement balance, the checks are listed on an adding machine and the total is deducted, showing the new balance, which must agree with the ledger balance.

Probably the first thing the bookkeeper will do in the morning is to make up a list of balances of all the important accounts. This is usually a pencil memorandum and is handed to the paying teller or an officer for their information and guidance. Another duty to be performed at odd moments during the day is keeping the record of interest bearing balances. Banks differ as to the method of calculating the net balance upon which interest is allowed. The usual and, incidentally, the soundest method is to deduct from the balance the amount of checks presented against it that day and the amount of uncollected checks represented by de-

posits of out-of-town items deposited during the preceding days. The length of time such deductions cover is governed by the distance and time taken in collecting them. Interest is then allowed on the net balance, since this represents the true balance of the depositor available for loans. The principle is the same as that underlying the calculation of reserve.

INDIVIDUAL BOOKKEEPER'S SETTLEMENT

Paying Teller checks	$29,316.10	Balance Aug. 1..	$206,142.10
Receiving Teller checks	11,416.05	Deposits	52,143.16
Balance Aug. 2	221,677.26	Collections	1,624.15
		Loans	2,500.00
	$262,409.41		$262,409.41

Few modern banks—if we except the mutual savings banks—use the "trial balance" system of settlement for the individual ledgers. Settlement is made daily. The bookkeeper begins the day with a total of all the balances as they were at the close of the preceding day's business. After he has finished the day's postings he makes his proof by adding all the credits to this balance total and then subtracts the debits or total of checks as shown on his journals. The sum of the new balances which he gets by running his accounts on an add-

ing machine must equal the figures shown on his calculation.

As an illustration of the way in which the figures of one clerk serve as a check on the figures of another, the bookkeeper's proof furnishes a good example. The totals of checks charged against the various accounts are taken from the bookkeeper's journal and these totals must agree with the figures the tellers use in their own settlements. This is also true of the total of deposits, etc.

CHAPTER X

Federal Reserve System

BANKING BEFORE THE ESTABLISHMENT OF THE FEDERAL RESERVE SYSTEM.—The National Bank Act of February 25, 1863 (amended many times), controlled our National banking system until November 16, 1914, when the Federal Reserve banks were opened. This act of 1863 provided that any National bank depositing Government bonds with the Treasurer of the United States should be entitled to receive circulating notes to an amount not exceeding 90% of the market value of the bonds. That is, if X bank deposited bonds with the United States Treasurer worth $100,000 on the market, the bank would be allowed to issue bank notes to not over $90,000. The National banks were prohibited from issuing any other form of notes to circulate as money. An act of March 3, 1865, provided that notes issued by State banks should be taxed 10%. This tax was so heavy that State banks found it unprofitable to issue their notes. The original act of 1863 had provided for the incorporation of National banks and a method by which State banks could become National banks. An act of March 14, 1900, permitted the issuance of bank notes up to 100% of the bonds, instead of 90% as previously, and the formation of banks with capital as low as $25,000.

NATIONAL BANK NOTES.—A bank note is a non-interest bearing obligation of a bank. It is payable on demand to the bearer in lawful money. Only Federal Reserve and National banks now issue them. The Federal Reserve Act of 1913 did not abolish the right to issue National bank notes. Notes may be issued up to the par value of the bonds deposited, provided that the issue does not exceed the market value of the bonds nor the capital of the issuing bank. Thus, if Government bonds are worth only 95 on the market, then the bank may issue notes equal to 95% of the par value of the bonds. The Secretary of the Treasury has ruled in recent years that bonds valued at 95 will be satisfactory for $100 of notes. If the bank has a capital of $100,000 it will not be allowed to issue notes for over that amount. Not more than one-third of a bank's total issue may be in $5 notes; smaller denominations are forbidden. Bank notes must be signed by the president and cashier of the issuing bank. National banks are compelled to redeem (pay in cash) their own notes at their own counter. All National banks are required by law to receive the notes of other National banks at par. Any National bank which issues notes may retire (cancel the obligation of the bank) its notes in sums of not less than $9,000 at one time by depositing lawful money with the Treasurer of the United States for their redemption. An equal amount of bonds will then be returned to the bank. But not

over $9,000,000 of notes can be retired in any one month. The Federal Reserve Act has made it permissible for National banks to retire their notes by sale of the bonds at par to the Federal Reserve banks, when the Federal Reserve Board sees fit to require the Federal Reserve bank to take them, but this is subject to a limitation of twenty-five millions of dollars in any one year.

OTHER FORMS OF PAPER MONEY USED IN THE UNITED STATES.—There are many other forms of paper money that are used in this country. Gold certificates, silver certificates, and United States notes make up the bulk of our currency. The Treasury notes of 1890 are rapidly disappearing. Reserve bank notes issued by the Federal Reserve banks, and Federal Reserve notes issued to the Federal Reserve banks under authority of the Federal Reserve Board, will also be discussed in this chapter.

GOLD CERTIFICATES. — These are paper certificates issued against gold coin or bullion held in trust in the Treasury. They are really warehouse receipts issued by the Government for gold coin and bullion deposited with the Secretary of the Treasury by individuals. Not less than $20 in coin will be accepted by the Government at one time, and the certificates may not be issued in denominations of less than $10. They are redeemable in gold coin at the Treasury and at all Sub-Treasuries of the United States. At least one-fourth

of all certificates outstanding shall be in denominations of $50 or less. They are receivable by the Government for customs, taxes and all public dues, and may be used by a National bank as part of its "reserve."

SILVER CERTIFICATES. — These are receipts for silver coin deposited with the Secretary of the Treasury. They represent silver dollars, and have largely displaced them in actual use. They are issued in denominations as small as $1, $2 and $5. Like gold certificates they are receivable for customs, taxes and public dues, and may be counted in the reserve of National banks.

TREASURY NOTES OF 1890.—These were authorized by the act of 1890, which provided that the Secretary of the Treasury should buy during each month not less than 4,500,000 ounces of silver, paying for the same with Treasury notes, redeemable on demand in either gold or silver coin (silver certificates are redeemable only in silver). The act of 1900 provided for the retirement of the Treasury notes, which were issued in denominations ranging from $1 to $1,000. As the Treasury notes are turned in for redemption, silver certificates are substituted for them. There are now only about $2,000,000 of the Treasury notes outstanding.

UNITED STATES NOTES.—These were first issued in 1862 to provide the Treasury with funds to meet the heavy expenses of the Civil War, owing

to the failure to adopt a vigorous taxation policy. Before the war was over, $450,000,000 of these had been issued. These notes are also known as "greenbacks." They are legal tender for all debts, both public and private, except duties on imports and interest on the public debt. When these notes are presented the United States Treasury redeems them in gold coin. A fixed amount of approximately $347,000,000 is outstanding at the present time, and the law requires their reissuance when redeemed. They have been issued in both large and small denominations. The increased demand for small bills led to the passage of an act in 1907 providing for the issue of United States notes in denominations of $1, 2 and $5 and the cancellation of an equal amount of the higher denominations.

CHARACTERISTICS OF THE BANKING SYSTEM OF THE UNITED STATES ON JUNE 30, 1914. — Numerous small and independent banks, few large banks and no branches; note issue unlimited as to aggregate amount and issued by numerous separate institutions; note issues absolutely secure but quite inelastic, owing to the peculiar methods of issue and lack of prompt redemption; the only nation that regulated deposit banking by requiring minimum specified reserves, and these reserves by law and custom were concentrated in New York and other central reserve cities, where they were loaned upon call, and were practically unavailable in any serious emergency.

NEED FOR FEDERAL RESERVE SYSTEM.—The National Bank Act proved inadequate to meet modern needs. There was a lack of elasticity in the currency of the country—that is, the periodical demands for money and currency coming from the great agricultural sections of the West and South could not be adequately met. The method of handling the bank reserves also proved imperfect and insufficient; vast sums of money were accumulated in the three central reserve cities of New York, Chicago and St. Louis. The banks in these cities would loan out this money on call loans. When the banks throughout the country found it necessary to draw on the reserves they had in the large cities, to meet the seasonal demands of business and agriculture, the large city banks were required to call these demand loans. This would frequently result in high money rates and radical declines in security prices. If business conditions in general were not especially good a panic, or at least great alarm, would result.

WHAT IS THE FEDERAL RESERVE SYSTEM?—Congress passed the Federal Reserve Act in 1913 and the banks were opened for business November 16, 1914. The entire country has been divided into twelve districts, in each of which there is one Federal Reserve bank. These are located in Boston, New York, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, Richmond, Minneapolis, Kansas City, Dallas and San Francisco.

WHO OWNS THE FEDERAL RESERVE BANKS?—They are owned by a large number of National banks, which are compelled to buy the stock, and by an increasing number of State banks and trust companies, which may buy the stock if they wish, and if they are willing to fulfill certain requirements. These member banks have been compelled to subscribe 6% of their capital and surplus toward the capital stock of the district banks. Of this, one-half was paid in by May 6, 1915, and the remainder is payable upon call of the Federal Reserve Board. These "member banks" are entitled to receive a cumulative dividend of 6% upon paid-in subscriptions; the remainder of earnings will be used one-half for additions to surplus until it reaches a satisfactory size, and all other earnings will go to the United States Government as a franchise tax. As amended June 21, 1917, the principal provisions of the Federal Reserve Act regarding the membership of State banking institutions in the Federal Reserve System are as follows:

(a) Subject to the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board, State banks becoming members of the Federal Reserve System retain full charter rights and statutory rights; they may continue to exercise all corporate powers granted by the States in which created, and are entitled to all privileges of member banks. They are, however, required

to conform to the reserve and capital requirements of the Federal Reserve Act and to the provisions of the law imposed on National banks which prohibit them from lending on or purchasing their own stock, and which relate to the withdrawal or impairment of their capital stock or to the payment of unearned dividends.

(b) A member State bank may withdraw from the Federal Reserve System after giving six months notice to the Federal Reserve Board, upon surrender and cancellation of its holdings of capital stock in the Federal Reserve bank, but a Federal Reserve bank shall not cancel, during any one calendar year, more than 25 per cent. of its capital stock, except by express authority of the Federal Reserve Board. A member bank surrendering stock for cancellation is entitled to receive therefor a refund of its cash paid subscription, with interest at the rate of one-half of one per cent. per month from date of last dividend, if earned; the amount refunded in no case to exceed the book value of the stock at that time.

(c) A member State bank is not subject to the restrictions imposed on National banks limiting the liability of any one person to 10 per cent. of the capital and surplus, or 30 per cent. of the capital of such bank. A Federal Reserve bank may not, however, rediscount for a State bank, notes, drafts or bills of exchange (exclusive of bills of exchange drawn against actually existing values and of com-

mercial paper actually owned by the person negotiating the same), of any one borrower who is indebted to such State bank in an amount greater than 10 per cent. of the capital and surplus of such bank. A member State bank is required to furnish a Federal Reserve bank with a certificate to this effect, before a note, draft, or bill of exchange will be rediscounted.

(d) A member State bank is now required to make reports of condition and of the payment of dividends to the Federal Reserve bank of its district, not less than three such reports being required annually. Member State banks were formerly required to make such reports to the Comptroller of the Currency at least five times each year.

(e) A member State bank is subject to examination under direction of the Federal Reserve Board, but is not subject to the provisions of the Revised Statutes requiring two examinations annually by examiners appointed by the Comptroller of the Currency. Examinations by State authorities and reports thereon will be accepted in lieu of examinations under direction of the Federal Reserve Board, if approved by directors of Federal Reserve bank.

HOW ARE THESE BANKS CONTROLLED? —The control of each Reserve bank is vested in a Board of Directors composed of nine members, of whom six are elected by the member banks. Three of this six must be bankers, and the other three must represent the industrial, commercial

and agricultural interests of the district. The remaining three, of whom two must be men of banking experience, are appointed by the Federal Reserve Board. In electing directors the smallest member bank has a single vote, the same as the largest member bank.

THE FEDERAL RESERVE BOARD.—The Federal Reserve Board is composed of the Secretary of the Treasury and the Comptroller of the Currency, ex-officio, and five other members appointed by the President. This board has jurisdiction over the twelve Reserve banks and is in almost continual session in Washington. The five appointed members have ten-year terms and salaries of $12,000 per annum. The powers of the Federal Reserve Board over the Federal Reserve banks are very extensive and altogether discretionary, including the right to examine their books and accounts, to require the publication of statements, to compel one Reserve bank to rediscount for another, to suspend reserve requirements, to grant the right to issue notes, to define the character of paper to be discounted, to fix rates of discount, to compel purchase of United States bonds, etc. Rediscounting occurs when a bank finds itself in need of funds, and takes some of the paper that it has discounted for customers to some other bank and discounts it; that is, "rediscounts" it. Of course, the bank must endorse, if the paper has been so drawn as to require it. When member banks

discount at a Federal Reserve bank, the process is also known as "rediscounting."

LOANS BY THE RESERVE BANKS.—The Reserve banks use their funds (1) in lending to member banks and to municipalities and the United States Government, (2) in buying in the open market commercial drafts accepted or endorsed by banks, thereby coming into direct touch with business men and producers. They are permitted to discount 90-day notes or drafts, the proceeds of which have been or are to be used for agricultural, industrial or commercial purposes; and six months' agricultural paper; and 90-day acceptances in foreign trade; all bearing the endorsement of member banks. They can buy and sell United States, State or municipal bonds or notes and gold bullion at home or abroad in the open market. Member banks having a capital of $1,000,000 or more are authorized to establish foreign branches, and all National banks not in central reserve cities are permitted to loan a limited amount on the security of land. As amended June 21, 1917, the Federal Reserve Act now permits any member bank, under regulations prescribed by the Federal Reserve Board, which shall apply to all banks alike, to accept foreign and domestic bills to an amount equal to its capital and surplus. The amendment prohibits member banks from accepting bills growing out of domestic transactions to an amount greater than 50 per cent. of its capital and surplus.

RESERVES OF THE FEDERAL RESERVE BANKS.—Federal Reserve banks are required to hold as reserves against deposits, 35% in gold or lawful money, and against notes, 40% in gold.

NOTE ISSUES PROVIDED FOR BY THE FEDERAL RESERVE ACT. — The note issues provided for by the act of 1913 are of two kinds:

(1) Federal Reserve Notes: These are obligations of the United States loaned to the Federal Reserve banks and secured 100% by commercial paper deposited with the Federal Reserve Agent (an official of the Federal Government), 40% or more by a bank reserve of gold (of which at least 5% must be with the United States Treasury), and a first lien upon the assets of the issuing bank. These are redeemable in gold at the United States Treasury and in gold or lawful money at any Federal Reserve bank, and they are receivable by all National banks for taxes, customs and other public dues. Redeemed notes are promptly sent to the bank of issue. They are retired by deposits with the Federal Reserve Agent of similar notes or of lawful money. The amount of this currency issued varies in accordance with the business needs of the country, thus securing the elasticity which the old system did not provide. As amended June 21, 1917, gold or gold certificates, as well as commercial paper, are accepted as collateral for Federal Reserve notes. The gold or gold certificates held as such collateral under the new law will be counted

as part of the gold reserve which the Federal Reserve bank is required to maintain against its notes in actual circulation. This change will result in all outstanding Federal Reserve notes being shown as a liability of the Federal Reserve bank and of gold or gold certificates deposited with the Federal Reserve agent being included among the assets of the bank. There is a further provision that gold deposited with the Treasurer of the United States for the purpose of redeeming outstanding Federal Reserve notes shall be considered as if collateral security on deposit with the Federal Reserve agent. There is another provision requiring Federal Reserve notes, gold, gold certificates and lawful money issued to or deposited with any Federal Reserve agent to be held in the joint custody of himself and the Federal Reserve bank under regulations to be prescribed by the Board.

(2) Federal Reserve Bank Notes: Notes may also be issued by Federal Reserve banks upon the deposit of United States bonds with the United States Treasurer. These notes possess the same form, and are issuable upon the same terms, as National bank notes are now issued. The Federal Reserve Board may compel Federal Reserve banks to buy deposited United States bonds at par and assume the note liability of existing National banks at a rate not over $25,000,000 a year, provided the National banks ask to have their bonds taken over.

REQUIRED RESERVES.—Under the Federal

Reserve Act less reserve is required against time deposits than against demand deposits. Demand deposits within the meaning of the act comprise all deposits payable within thirty days, and time deposits comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days notice before payment, and all postal savings deposits. Every bank, banking association or trust company which is or which becomes a member of any Federal Reserve bank shall establish and maintain reserve balances with its Federal Reserve bank as follows:

(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than 7 per cent. of the aggregate amount of its demand deposits and 3 per cent. of its time deposits.

(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than 10 per cent. of the aggregate amount of its demand deposits and 3 per cent. of its time deposits.

(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than 13 per cent. of the aggregate amount of its demand deposits and 3 per cent. of its time deposits.

The required balance carried by a member bank with a Federal Reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities; provided, however, that no bank shall at any time make new loans or shall pay any dividends unless and until the total balance required by law is fully restored.

In estimating the balances required by the act the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal Reserve banks shall be determined.

EXCHANGE OR COLLECTION. — As amended June 21, 1917, the Federal Reserve Act provides that any Federal Reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, National bank notes, Federal Reserve notes, or checks and drafts payable upon presentation, and, also, for collection, maturing notes and bills, or, solely for purposes of exchange or of collection, may receive from other Federal Reserve banks deposits of current funds in lawful money, National bank notes, or checks upon other Federal Reserve banks, and checks and drafts payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the

purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, National bank notes, Federal Reserve notes, checks and drafts payable upon presentation, or maturing notes and bills; provided such nonmember bank or trust company maintains with the Federal Reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal Reserve bank; provided, further, that nothing in this or any other section of this act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Federal Reserve Board, but in no case to exceed 10 cents per $100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal Reserve banks.

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